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# East Europe Report

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## CEMA MEMBERS TRADE BALANCE WITH SOCIALIST COUNTRIES DETAILED

East Berlin AUSSENWIRTSCHAFT in German Vol 15 No 3, 14 Jan 87 pp 1-2

[Unattributed article: More Progress in Bilateral Trade and Economic Relations--Increased Exchange of Goods Between USSR and Mongolian People's Republic"]

[Text] Under a long-term trade agreement covering the period from 1986 to 1990, commodity turnover between the USSR and the Mongolian People's Republic is scheduled to increase by some 25 percent.

The USSR's export program to the Mongolian People's Republic runs to some 67,000 items. As in years past, imports from the Soviet Union provide Mongolia with everything it needs in the field of petroleum products, means of transport, metals as well as farm and road construction machinery in addition to spare parts and materials. Delivery of industrial consumer goods contributes greatly to the continuing improvement of the standard of living of the Mongolian population.

Machinery and equipment are an important part of the Soviet export program. In 1980, 65 percent of Soviet exports were in these two areas; the corresponding figure for 1984 was 62 percent. Soviet exports of selected groups of products are rising at a substantially faster rate than exports to the Mongolian People's Republic as such. In connection with the Mongolian People's Republic's food program, agreement was reached to step up the delivery of tractors by 46 percent and that of trucks by 49 percent as against the period from 1981 to 1985. Because of the fact that the Mongolian economy makes extensive use of Soviet technology and because of the plans for added delivery of Soviet machinery and equipment special attention is being devoted to service and maintenance. An agreement concluded in early December on customer service for the 1986-1990 period calls for continued expansion of the service network in the Mongolian People's Republic and for an improvement of the training and continuing education programs for Mongolian service personnel.

As the standard of living improves, popular demand for industrial consumer goods such as washing machines, television sets, refrigerators and electrical household appliances is on the rise, the more so since every village in the

Mongolian People's Republic now has electricity. This results in still more exports of such industrial consumer items by the USSR whose products in these fields occupy the number one position on the Mongolian domestic market.

Exports from the Mongolian People's Republic include cattle, meat, wool, wool rugs, leather and lambskin goods, knitted woolen goods and other light industrial products as well as mining products. Over the past several years, export volume has largely been determined by the mining and textile (specifically rug) industries which have grown rapidly thanks to close cooperation with the USSR. While exports of wool, meat animals, meat and meat products have remained fairly constant over the course of the past 5-year plan, exports of rugs, leather apparel, knitted wool goods and blankets and particularly of ores and ore concentrates have increased sharply. In 1984, ores and ore concentrates made up for 40 percent of all exports. During the current 5-year plan, the growth rate of Mongolian exports will be determined in large part by the delivery of textile goods. Exports of knitted wool goods will increase almost threefold and those of rugs will more than double. In all, the Mongolian People's Republic will be exporting more industrial products and fewer raw materials.

Table 1. Trade Between USSR and Mongolian People's Republic.

	Volume in Millions of Rubles	Exports	Imports
1976/80	3,689.3	2,891.9	797.4
1976	614.5	474.7	139.8
1977	676.5	550.4	126.1
1978	743.1	596.1	147.0
1979	771.6	594.4	177.2
1980	883.6	676.3	207.3
1981/85	6,519.0	4,827.6	1,691.4
1981	1,035.9	787.3	248.6
1982	1,232.7	918.9	313.8
1983	1,348.2	993.2	355.0
1984	1,402.0	1,014.6	387.4
1985	1,500.2	1,113.6	386.6
1986/90	8,100.0		
1986	785.8	639.5	146.3
[first half]			

Table 2. Bilateral Trade in Selected Commodities.

Units		1981/85	1986/90
USSR Exports			
Tractors	millions/rubles	26.6	38.9
Trucks	millions/rubles	62.0	92.3
Diesel Fuel	millions/rubles	238.6	384.7
Rolled Iron	millions/rubles	61.2	96.4
Green Tea	1,000 tons	23.9	30.0
Sugar	1,000 tons	176.3	220.0
Cotton Fabrics	millions/meters	265.3	280.0
Silk Fabrics	millions/meters	27.7	35.0
Medicines	millions/rubles	21.5	32.0
Mongolian People's Republic Exports			
Wool Rugs	1,000 sq meters	3,119.0	6,790.0
Wool Blankets	in 1,000s	411.4	605.0
Wool/Mohair Knits	in 1,000s	668.9	2,540.0
Leather Jackets	in 1,000s	675.5	730.0

[Source: FOREIGN TRADE OF THE USSR, No 8, 1986]

#### Expanded Cooperation with PRC

In late November 1986, the Polish People's Republic and the PRC concluded an agreement on the broad outlines of mutual economic cooperation between 1986 and 1995. Cooperation will extend to virtually all sectors of the economy: mining and processing of raw materials; the coal industry; the energy sector; machine tools; electrical engineering and electronics; the chemical and textile industries; transportation; agriculture and the food industry.

Over the past several years, trade between the two countries has been growing rapidly, rising from 450 million Swiss francs in 1984 to 1.3 billion Swiss francs in 1985 and to 1.5 billion in 1986. Machinery and equipment make up about 80 percent of the Polish exports. Last year, for example, Poland exported 10,000 passenger cars and 2,000 trucks to the PRC. The first comprehensive auto service system for Polish passenger vehicles and sub-compacts has gone into operation in China.

At its second meeting in late November 1986, the CSSR-PRC commission for economic, commercial and scientific-technological cooperation came up with a positive report on cooperation thus far. Agreement was reached on further goals for cooperation, e.g. in the energy sector; in the automotive and gas industries as well as in machine tools and textiles. A special task force was established to deal with cooperation in the energy field and the formation of a second such group to deal with machine tools was considered.



The most important cooperative projects include construction of the Shentow power plant (boasting four 200-megawatt units); delivery of technological equipment for soft coal gasification at Lanzhou; continued operation of the Tatra-815 truck assembly plant which has an annual capacity of 1,100 units and the sale of production data on the BD-200 spindle-less spinning machine as well as assistance in starting production.

Trade between the two countries has more than doubled between 1980 and 1985. In 1986, the trade volume amounted to some 953 million Swiss francs; in 1987, it is expected to go even higher. The CSSR has been supplying tractors, and trucks, machine tools and textile machinery as well as equipment for the shoe, leather and tobacco industries. A large part of the export volume is made up of energy equipment, i.e. 200-megawatt and 500-megawatt units. The CSSR's imports from the PRC in 1987 include color television sets, sporting goods, textiles, shoes, foodstuffs, cotton and other raw materials.

The long-term trade agreement between the two countries calls for an annual turnover of one billion Swiss francs between 1986 and 1990. The 1986-1990 commodity transport agreement signed last year includes plans for the establishment of a joint CSSR-PRC shipping line.

#### Expansion of Trade with the People's Socialist Republic of Albania

Under a recently concluded long-term agreement, trade between the Bulgarian People's Republic and the People's Socialist Republic of Albania is to increase threefold by 1990. Exports to Albania include semi-finished goods, steel pipes and chemical products while Bulgaria will import nickel ores, bauxite, electrical energy and textiles.

At the present time, the CSSR is Albania's second-largest trading partner after the SFRY. Over the past 5 years, trade between the CSSR and Albania has increased by about 24 percent. In 1986, it amounted to some 70 million rubles. Trade between the two nations, which is to be expanded further, is expected to climb to 86 million rubles in 1987--which is 23 percent more than in 1986 and 12 percent more than was projected for this year under the long-term trade agreement.

The CSSR supplies Albania above all with passenger cars, locomotives, steel pipes, rails and hydraulic lifts; Albania, for its part, ships iron, nickel and chromium ores to the CSSR as well as asphalt, work clothes and farm produce, e.g. tomatoes, melons, pepper, citrus fruits and tobacco in addition to canned fruit and vegetables.

In 1987, trade between the SFRY and the Socialist People's Republic of Albania will rise by at least 20 percent to \$126 million. For the most part, Yugoslavia's exports include ferrous metals, finished metal products, various types of equipment in addition to consumer goods and foodstuffs. Imports from Albania include electrical power, chromium, bitumen and a variety of everyday consumer items.

As compared to the documented figures for 1986, trade between the Polish People's Republic and the Socialist People's Republic of Albania will increase



by 28 percent in 1987. In 1985, it amounted to 3.04 billion zlotys and during the first half of 1986 to 2.1 billion zlotys (which represented a 20-percent increase). Poland supplies Albania with electrical engineering products, mining machinery and equipment, delivery trucks, passenger cars, coke and the technology required for the production of polyethylene foils and sugar and the commercial processing of meat scraps. Polish imports from Albania include asphalt, chromium ore, copper cables and pipes, tobacco, cigarettes, paprika, citrus fruits, wine as well as cotton and leather goods.

Trade between the Hungarian People's Republic and the Socialist People's Republic of Albania is also expanding. The 1987 list of commodities will exceed the figures projected for this year in the long-term trade agreement by 19 percent. Hungary provides Albania with complete inventories, products of the equipment industry, fabrics, pharmaceuticals, rolled metals and food products and in turn imports copper products, basic materials for the metal industry, textiles, tropical fruit and canned goods from Albania.

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## CEMA LIGHT INDUSTRY COOPERATES IN CONSUMER GOODS PRODUCTION

East Berlin AUSSENWIRTSCHAFT in German Vol 15 No 10, 4 Mar 87 pp 8, 25

[Unattributed article: "Cooperation Among CEMA Countries"]

[Text] The resolutions adopted by the communist and the workers parties of the CEMA countries agree that improved satisfaction of the growing popular demand for industrial consumer goods is an important task which cannot be delayed any further. It is to be achieved, among other things, on the basis of further intensification of cooperation in the production of these goods, of the expansion and updating of inventories and the improvement of quality.

At the present time, developments in the consumer goods industry are characterized by a qualitative change in investment policy. The primary focus is not on the construction of new plants but on rebuilding and modernizing existing facilities. On the average, the CEMA countries have used between one-half and two-thirds of the investment budget earmarked for the consumer goods industry for these purposes during the five-year plan period from 1981 to 1985.

In 1985, the share of the major branches of light industry (i.e. textiles, knitted goods, wearing apparel and leather goods) of industrial production as a whole stood at 8.9 percent in Bulgaria; at 7.8 percent in Hungary; at 8.5 percent in the GDR; at 6.5 percent in Cuba; at 26.7 percent in the Mongolian People's Republic; at 9.3 percent in Poland; at 12.4 percent in Romania; at 14.2 percent in the USSR and at 8.7 percent in the CSSR. Total average per capita production for 1985 amounted 41.3 square meters of fabrics; 7.2 pairs of socks and hose; 7.5 pieces of outerwear knitted goods and undergarments and 3.3 pairs of shoes.

The CEMA Permanent Commission is playing an increasingly important role in organizing cooperation. Over the past few years, it has focused on the implementation of the long-range target program of cooperation designed to satisfy demand for industrial consumer goods. A number of agreements have been concluded--among them the general agreement on expanding production of upholstery fabrics in Bulgaria, Romania and the CSSR for delivery to the USSR, the Mongolian People's Republic and the Polish People's Republic; of furniture in Romania and the CSSR to be supplied to the USSR and the Mongolian People's

Republic and the agreement on multilateral specialization and cooperation in the manufacture of certain types of special furniture and the exchange of furniture accessories.

Comprehensive development of light industry calls for satisfying its needs for high-production equipment, high-quality basic and auxiliary materials and a sufficiently large inventory. The CEMA agencies have determined these needs and have established the corresponding technological standards. These indices are also used by international economic organizations such as Intertextilmash and Interchim in their work.

#### Accent on Quality and Efficiency

The CEMA Commission for Light Industry has worked out a program for cooperation among the member states to run until 1990. The program is of a comprehensive nature and applies to a number of related fields. Qualitative improvement of production calls for the development of new products with the help of new technologies and the use of new materials in the various branches of the consumer goods industry.

In the garment industry, tests and pilot programs designed to establish uniform production standards throughout the CEMA countries are continuing. At the same time, the performance standards for modern textile machinery are being studied, thereby creating a framework for the development of production techniques designed to achieve semi-automatic production of high-quality goods with the help of microelectronics. Coordination of production using semi-automatic assembly lines and microprocessor technology will be the job of Intertextilmash.

The garment industry will be devoting greater attention to style, color and accessories in order to satisfy the needs of domestic and foreign customers more fully and rapidly.

The knitwear industry is in the process of developing new technologies to refine and manufacture polyester threads so that the resulting products match those made of natural fibers more closely. Modified viscose fibers are being developed for use in the manufacture of hosiery and nightwear in order to save on cotton and to improve fabric quality. The leather and shoe industries are making use of newly developed types of more elastic and more hygienic synthetic leather to produce leather and suede uppers which meet the demands of both the processors and the consumers.

New technologies for the production of soft, high-quality leather from pigskins have already been introduced. As a result, labor productivity increased and costs declined. Preliminary statistics compiled in the USSR indicate a savings of 92,000 rubles per one million pairs of shoes.

In the furniture industry, the availability of new and improved technologies for the manufacture of plywood furniture components makes a threefold increase in labor productivity possible. New technologies have also been developed for the production of new types of furniture packing materials which guarantee the safe transport of furniture over long distances. As a result, the USSR expects

annual savings of some 100,000 cubic meters of wood and a fivefold rise in labor productivity both in warehousing and furniture transport.

#### **Ambitious Goals**

The CEMA member states have established the priorities for cooperation in the light industry sector up to 1990, e.g. strengthening the technological base and safeguarding raw material supplies; improving product quality and creating a wider selection; rebuilding and modernizing plants; making economic use of energy, raw materials and waste products; specializing and cooperating in the manufacture of various kinds of products and exchanging information. On the basis of decisions reached at the highest level, the Mongolian People's Republic, the SRV and the Republic of Cuba will continue to receive assistance in the accelerated development of specific sectors of light industry.

The aid program for Mongolia calls for the expansion and reconstruction of capacities of the textile, garment, leather and shoe industries and the training of qualified personnel. Regarding the Republic of Cuba, it was decided to cooperate with that nation's garment and leather industries and to establish a light industry research institute. A program designed to speed up development of the polygraphic industry beyond 1990 was also drawn up.

The comprehensive program for scientific-technological progress in the CEMA countries until the year 2000 assigns two main tasks to the commission for light industry and other CEMA agencies which are a part of the general agreement on cooperation in the establishment of an automated planning system for the period from 1986 to 1990. It includes drawing up technological programs for the development and production of designs and models for the textile and shoe industries and the creation of automated planning systems for plants of the light industry sector.

Projects designed to achieve scientific-technological progress in light industry and in the wood processing industry are not restricted, however, to the realization of the two abovementioned tasks. New scientific-technological solutions also have a decisive impact on satisfying rapidly growing popular demand for high-quality products in the CEMA countries. The activities of the commission for light industry are therefore consistently focused on the development of new, progressive technologies and materials; on the most up-to-date technical specifications of the appropriate high-production equipment; on the establishment of conditions for improving the level of automation of difficult and labor-intensive processes and on the wide-ranging application of microprocessor and robot technology.

An example of this are the comprehensively mechanized production processes in the garment industry. Experts from Bulgaria, the CSSR, the GDR, Hungary, Poland, Romania and the USSR have developed such processes for the manufacture of high-quality men's suits, slacks, overcoats and capes as well as women's dresses and work clothes. Each of the participating countries has developed assembly lines for the manufacture of a specific type of apparel. This has saved a great deal of time during the development stage. The Soviet

Union plans to install more than 200 such assembly lines during the course of the current five-year plan. This will result in an average rise in labor productivity by 22 percent.

The plants belonging to the international economic organization, Intertextilmash, will develop a new generation of assembly lines for the comprehensive mechanization of the manufacture of 27 different types of wearing apparel which will make up 60 percent of total output in this field. Plans are to make large-scale use of robot and microprocessor technology and to introduce efficient, variable technological processes for the manufacture of wearing apparel.

A major incentive for the expansion and intensification of cooperation in the production of consumer goods is the comprehensive program adopted by the USSR for the production of consumer goods and services for the period of 1986 to 2000. In view of the size of the Soviet market, this program will have an impact on the various sectors of the consumer goods industry in each and every CEMA member state. Among other things, the program calls for cooperation in strengthening the raw material base for the production of consumer goods; the technological modernization of plants; the intensification of scientific-technological cooperation and the exchange of information. The realization of this program and the active participation of the CEMA member countries will provide all the partners with a new impetus for cooperation.

[Excerpted from RGW (CEMA) Bulletin, 11/86]

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## FINANCIAL PLAN PUBLISHED BY PLANNING COMMISSION

Prague PLANOVANE HOSPODARSTVI in Czech No 9, 1986 pp 7-17

[Article by Eng Jindrich Weiss, State Planning Commission: "The Financial Plan-Successes and Problems"]

[Text] Resolutions of the 16th CPCZ Congress and of numerous other party and state agencies launched our economy on an important transition from a primarily extensive mode of economic development to an intensive mode, the objective of which is the further increase of the material and cultural well-being of our workers. This fundamental objective was also emphasized in the resolutions of the 17th CPCZ Congress, which pointed out clearly that improving the efficiency of the capital replacement process is the only option remaining for our economy, as well as the economies of the other CEMA countries.

To be successful, intensive development must gradually be reflected not only in improved use values and quality of production, in the availability and use of capital assets, in production techniques and organization, in changes in the mix and qualifications of the work force, but also in improved management techniques, documentation, analysis, planning and price formation.

This is the context needed to understand the need for the steps that have recently been taken related to the planned management system. The economy has no use for those who do not understand the complexity of the problems that have accumulated within our economy in the past decade and who do not understand that the means used to resolve them must not only improve the forms of central planning but also give more latitude to individual and collective initiative and make individual levels of management accountable for the problems which they cause.

Anyone who follows the economic press is inundated with data concerning inflationary trends on capitalist markets. Other concurrent studies note a gradual loss of contact by some of our production sectors with world technical advances, our high materials intensiveness of production, unfavorable exchange relations with our foreign trading partners, etc.

Measures incorporated into all parts of the plan, including the financial plan, must therefore pursue the objective of a fundamental turnaround that will value human work in a way that will make the use values, prices and service availability for our products competitive on the most advanced capitalist markets. The capitalist market is one competitive arena that provides a clear



indication of the sophistication and performance of our economy. Underestimating the scope of this competition will mean that we will export more and more of our national labor to pay for imports with the same amount of use value, thereby impoverishing our domestic market.

Main Objectives for the Socio-Economic Development of the CSSR for 1986-1990, as approved by the 16th CPCZ Congress, decreed, in line with an analysis of this situation, that all sectors of the economy must place more accurate valuations on and more effectively utilize all types of fuel, energy, materials and raw materials, as well as existing capital assets and labor inputs. Main objectives assumed that significant reductions in raw materials and materials consumption and their more efficient utilization would result in a maximum possible reduction in the materials intensiveness of production. The importance of these reductions for the efficiency of the capital asset replacement process lies in the fact that in 1980, for instance, more than half (57 percent in 1977 prices) of the national product that was formed was also consumed in the production process. The Seventh 5-Year Plan decreed that this situation must improve. This involved, among other things, a reduction in the growth rate of raw materials and energy intensive sectors and a shift of resources to those with lower input requirements. This trend will continue into the Eight 5-Year Plan. This is the only way, in conjunction with across the board cost reductions, that we can meet the objective of not increasing production inputs, and of assuring that the volume of a number of raw material, material and fuel and power resources that are now imported will stay roughly at use levels of the Sixth 5-Year Plan, or increase only insignificantly. This is true also for a number of domestic raw materials.

Tasks for the Seventh and Eighth 5-Year Plans could not be met without involving science and the creative abilities of people in overall economic activity. During the transition to intensive development this is a top priority. Even though a socialist economy has a broad range of opportunities open to it for influencing the capital replacement process, we cannot be satisfied with the results to date of R&D application efforts. Why is this so? Our experience would indicate that the appropriate economic environment must exist if objectives are to be met. This is true for R&D as well. So far, however, we have not been successful in creating an environment within the economy in which an individual or a collective can reap either economic or noneconomic benefits from their work or initiatives in the practical implementation of new ideas. The solution lies not in the plans themselves or in their further expansion, updating, integration and the like, but in the economic necessity for the khozraschot sphere to implement R&D findings even though this involves some risk, some extra work and effort. On the other hand, firms should probably be given the opportunity to reduce some of the risk connected with new economic activities that might otherwise be fully the responsibility of a particular collective.

At the central agency level, then at least two conditions must be met:

--the enterprise sphere cannot be tied down by a large number of indicators, since this reduces its capability for making decisions. Every indicator functions across the board and in an organism as complex as an economy, any given indicator can act in certain instances counter to the interests of both firms and society (such as when production factors are changed); at the same time it can have a positive impact.

--One objective is long-term stability of standards and indicators. Modifications should be made only when economic performance changes significantly. Ongoing and general interference in material and value relationships is a negative phenomenon in a management system. It makes it impossible to establish full accountability for enterprises, distorts the criteria for their valuation and control, and inhibits the active functioning of financial and economic incentives.

We are now at a time when the directives of the 17th CPCZ Congress and the approved version of the Eighth 5-Year Plan is being broken down for all levels of management, when optimum strategies for meeting its objectives are being discussed, and supplier-customer relationships are being negotiated. The organizational, systemic and material conditions are thus being established so that these tasks can be fully implemented at all levels. Evaluations of similar tasks in the Seventh 5-Year Plan can offer some lessons on how best to conduct this type of organizational work.

#### Tasks for Seventh 5-Year Plan in Basic Areas of Financial Planning

Directives of the 16th CPCZ Congress were specified in the demanding tasks of the financial plan. The financial plan performs a dual function within the state planning system. By describing the entire capital replacement process in financial terms it encompasses established efficiency tasks in other parts of the plan, and itself exerts pressure on efficiency in other parts of the plan through its own mechanisms. In some areas of the economy it performs an indispensable function.

In the case of state economic entities the financial part of the Seventh 5-Year Plan was based on analyses of the basic trends of the Sixth 5-Year Plan.

Output was projected to increase over the five-year period by 9.9 percent, i.e., an annual average of 1.9 percent. In the first two years of the plan, the rate of increase of output was to be 0.9 percent, and in the final three years an average of 2.6 percent.

Material costs as a percentage of output were slated to decrease by 4.06 percent, which amounts to an average annual decline of 0.82 percent.

This plan set more ambitious targets than the Sixth 5-Year Plan, in which the reduction equalled 2.6 percent.

Table 1. Reduction in Material Costs as Percentages of Output (Percent)

	Sixth 5-Year Plan	Seventh 5- Year Plan	Annual Average	
			Sixth 5-Year Plan	Seventh 5- Year Plan
CSSR	2.60	4.06	0.53	0.82
CSR	1.81	4.16	0.36	0.85
SSR	2.82	4.42	0.57	0.90
Federal Agencies	3.03	4.17	0.61	0.85

Reductions in materials costs as a percentage of output meant savings of about Kcs 16 billion during the Sixth 5-Year Plan (an annual average of Kcs 3.2 billion), and projections, assuming production targets are met, called for savings of about Kcs 33.4 billion during the Seventh 5-Year Plan (an average Kcs 6.7 billion annually).

The attention that was paid to materials costs during the Seventh 5-Year Plan reflected the efforts to implement the directives of the 16th Congress regarding conserving materials, raw materials, fuels and energy, even though the conditions under which these efforts took place were in many cases more difficult than in the previous 5-year plan. Complicating factors included reduced growth rates of output, increased maintenance costs, increased operating costs for ecological facilities, certain structural changes such as initial production of a new truck, the production of equipment for the nuclear power industry, changes in construction work as a percentage of [produktovodech], further deterioration in the geological conditions of mining, etc.

A number of measures were taken in this area to facilitate task fulfillment related to the 16th CPCZ Congress that resulted in direct reductions in materials consumption, while other, systemic measures influenced consumption indirectly, mainly through economic incentives to conserve materials.

The first group of measures includes input-output tables for basic materials and fuels, binding limits on consumption of crude oil products and energy, state priority programs, etc.

The systemic measures included the introduction of indicators, adjusted value added and return on capital assets, which exerted pressure for reductions in both materials costs and overall costs.

This is especially evident in the case of adjusted value added, which according to the tasks of the Seventh 5-Year Plan, was to increase by 1985 by 20.1 percent, or Kcs 73.4 billion, over 1980 figures. This increase would be 9.2 percent faster than increases in output. What is more important is that 57 percent of the total increase in adjusted value added can be attributed to

increased output, while 43 percent of the increase was due to reductions in materials costs and penalty clauses. To be sure, this indicator was not used during the Sixth 5-Year Plan (with the exception of the organizations participating in the Comprehensive Experiment), but it can be derived from existing data. These figures show that some 81.5 percent of adjusted value added figure was accounted for by increased output, while only 18.5 percent of the increase could be attributed to cost reductions in the Sixth 5-Year Plan.

The above figures point to a clear qualitative break in how wage increases are funded. The intention was for most of these increases to be derived from savings in embodied labor.

The impact of the return on capital assets indicator was not quite so clear because it exerts an impact that differs by sector, even though it is a composite indicator and should theoretically affect all sectors equally. Its greatest impact is on profit formation. It has less of an impact on inventory figures, and a minimal impact on capital assets and investment. The way this indicator is set up an increase in profits of Kcs 1 million is equivalent to the impact of a reduction in inventories by Kcs 13-14 million. It is also clear that the motivational aspects of this indicator become evident only over the long term, meaning that an annual evaluation period is too short. Its highly composite nature means also that it has greater significance for upper levels of management and longer range economic planning.

Counterplanning is another factor that influences management. We have found that the average wage level provides the greatest incentive for implementing counterplanning. Wages are tied mainly to adjusted value added, because the basic component of wages payable resources are tied to this indicator.

The Seventh 5-Year Plan also set a more demanding target than in the previous 5-year plan for the total costs as a percentage of output indicator. In the Sixth 5-Year Plan total costs declined by 7.78 percent. In contrast, the target for the Seventh 5-Year Plan was 2.25 percent.

From the evolution of output and of total costs one can calculate the growth rate of profits, which in the Seventh 5-Year Plan (excluding foreign trade and extraordinary yields) amounted to 146.9 percent. Between 1980 and 1985 profits increased by Kcs 34.2 billion, of which Kcs 26.3 billion (76.9 percent) was to be accounted for by industry and construction.

The actual results in meeting financial plan indicators for state economic entities in the CSSR for 1981-1985, were as follows:



	<u>Plan target</u>	<u>Actual</u>
Output	109.9	111.6
Adjusted value added	120.2	125.9
Profits	146.9	164.3
Reduction in material costs as percent of output	4.06	5.86
Reduction in total costs as percent of output	2.25	3.16

These figures show that actual financial performance for the Seventh 5-Year Plan exceeded the projections of both the 5-year and the annual plans.

The following table presents the evolution of specific categories of materials costs for 1981-1985 (savings -, excess +) in Kcs billions after adjusting for actual output:

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Materials, fuel, power consumption	-11.2	-12.0	-10.2	-16.2	- 9.8
External freight	- 0.6	- 1.8	- 0.7	+ 0.7	- 0.2
External repair and maintenance	+ 0.5	+ 0.8	+0.9	+ 2.0	+ 1.4
Costs for communications services	+ 0.3	+ 0.2	+ 0.2	+ 0.2	+ 0.2
Other	+ 1.1	+ 3.6	+ 1.0	+ 3.3	+ 2.3
Material costs - total	- 9.9	- 9.2	- 8.8	-10.0	- 6.1

There were certain factors that influenced the development of materials costs, and in particular materials consumption, in a positive fashion. These included the structure of production and outputs (sectors with lower than average materials consumption grew at a faster rate than those with above average consumption). The product mix within individual V.H.J. and enterprises also exerted a similar impact.

Significant savings in materials and inputs also resulted from efforts related to state priority programs 02 and 03 for the conservation of metals, fuels, and energy, and the enforcement of limitations on consumption of gasoline and diesel fuel.

For instance, the engineering sectors recorded the following reductions in their consumption of ferrous and nonferrous metals (standard consumption in tons per Kcs million of output):

	Ferrous metals				
	1981	1982	1983	1984	1985
Metallurgy and heavy engineering	39.04	38.98	38.24	34.43	33.92
General engineering	18.14	17.22	17.71	16.80	16.23
Electrotechnical industry	8.57	7.85	6.39	5.86	5.77

	Nonferrous metals				
	1981	1982	1983	1984	1985
Metallurgy and heavy engineering	2.06	1.79	1.84	1.67	1.64
General engineering	1.43	1.24	1.19	1.10	1.10
Electrotechnical industry	2.71	2.37	2.29	2.22	2.19

In the final year of the Seventh 5-Year Plan adjusted value added was projected to reach Kcs 441 billion. The actual figure was Kcs 461.8 billion. Increases in output accounted for some 51 percent of the total of Kcs 91.8 billion in excess adjusted value added which accumulated over the 5-year period, with reductions in materials costs accounting for the remaining 49 percent. These obviously were better results than projected by the 5-year plan.

The growth rate of adjusted value added increased steadily through 1984 (with the exception of 1982 when growth was flat), then dropped off somewhat in 1985:

	1981	1982	1983	1984	1985	average
Index	104.6	103.1	105.1	105.5	104.4	104.5

In the first two years of the 5-year plan 81 percent of the increases in adjusted value added were accounted for by reductions in materials costs, with increases in output accounting for only 19 percent of the increase. Beginning in 1983 this ratio began to change, with increases in output accounting for more and more of increases in adjusted value added. This resulted in declining percentage reductions in materials costs in relation to outputs, as follows:

	1981	1982	1983	1984	1985
Reductions in materials costs as percentage of total output	1.30	1.27	1.16	1.22	0.73



The results for 1985 indicate that all the easily exploitable sources of reduced costs have been tapped and that further cost reductions will require more fundamental measures at the preproduction and production levels.

A reduction in total costs as a percentage of output by 3.16 percent came almost exclusively from reductions in materials costs. In contrast, capital asset depreciation rose faster than output, thus increasing costs for the 5-year plan by Kcs 9 billion. Wages increased as a percentage of output in the first two years of the plan, then began to decline in 1983 reaching their original level by the end of the 5-year period. The same is true of financial costs, which evolved over the 5-year period in the same direction as output.

Profits increased by Kcs 46.9 billion between 1980 and 1985. This is exclusive of extraordinary profits and profits from foreign trade mechanisms. Cost reductions accounted for Kcs 36.1 billion of this increase, and outputs for Kcs 10.8 billion.

The return on capital assets, which is tied to the incentive component of wages payable resources, increased in the industrial and construction sectors from 6.1 percent in 1981 to 8.81 percent in 1985, an increase of 44 percent. This was made possible by an increased in profits of 89 percent and an increase in the capital stock of 31 percent.

When incorporating elements of intensification in the capital replacement process and the financial plan, account must be taken not only of cost factors, but also resources. For this reason demanding tasks have been established within the financial plan for inventory utilization and specific systemic measures have been implemented to finance investments that support investment plan objectives in the area of capital asset replacement.

Analyses indicate that the replacement process is taking place in our country in an environment of excessively high inventories. Calculations have shown that reducing inventories by 5 percent would be the equivalent to reducing costs by 2 percent. This is in itself a demanding task. But these considerations provide only an incomplete perspective on the inventory issue. Inventories are more complex because they reflect the status of supplier-consumer relations, the sophistication of production management, materials and equipment availability, and in the final analysis, market relationships. Taken together, the inventory situation provides a good indicator of overall management performance at the enterprise level.

The 5-year plan for 1981-1985 projected increases in inventories of economic organizations (excluding uninvoiced work and capital equipment shipments) would amount to Kcs 37.7 billion during this period. This would be an overall increase of 8.9 percent, with the figure for construction and industry being Kcs 11.7 billion, or 6.2 percent. Targets for inventory management were exceptionally strict both in relation to Sixth 5-Year Plan performance and in relation to preliminary targets for this period. While inventory turnover had slowed down during the Sixth 5-Year Plan by about 4 days, the Seventh

5-Year Plan projected an increase in inventory turnover period of some 5 days, which would result in inventory reductions of about Kcs 11 billion.

The following trends became evident in the inventory area during the Seventh 5-Year Plan:

- that original inventory management targets would not be met, making it necessary to adjust annual plan tasks, and to set additional tasks to improve inventory management;
- a gradual return to effective inventory utilization, especially in construction and industry, a reduction in absolute increases and an accelerated inventory turnover period in days.

The unfavorable inventory situation forced all levels of management up to central party agencies to devote considerable time to this issue. The action plans established for the Seventh 5-Year Plan were upgraded in the annual plans (especially for firms in the construction and industrial sectors) and other measures were adopted to improve inventory management. CSSR Government Resolution No 157/82 set a policy of maximum utilization of resources frozen in inventories both by incorporating them into plans for materials and equipment supply and by further classification by 30 September 1982. Inventory management was placed among the critical indicators for the granting of annual bonuses and evaluating organizational performance. Several tasks were established related to the standardization and formation of readily marketable inventories. Organizations became responsible for participating in the financing of inventories with their own resources (working capital) and for excess inventories. The loan and interest rate system has been tightened and the role of penalty interest payments against useable wages payable resources has been increased.

Even though inventory management improved during the Seventh 5-Year Plan we were unable to meet plan targets. State economic entities exceeded inventory limits by Kcs 18 billion, and inventory targets in annual plans by Kcs 19.5 billion. Inventory increases were, however, redistributed with regard to sectors. In 1981 the excess inventories were concentrated in the construction and industrial sectors, while they declined in domestic retail trade and in agriculture. After 1982 these trends changed. Inventories in construction and industry began to decline, but nevertheless exceeded plan guidelines, and in particular annual plan guidelines. The following table summarizes these trends (all data in Kcs billions).

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1981-85</u>
Seventh 5-Year Plan	8.192	-0.579	1.080	1.716	1.293	11.702
Annual plans	1.827	-0.579	-1.356	3.059	1.577	4.528
Actual performance	8.192	2.408	1.609	.328	2.400	14.937
Difference from 7th 5-Year Plan	—	2.987	.529	-1.388	1.107	3.235
Difference from annual plans	6.365	2.987	2.965	-2.731	.823	10.409

On the whole, one may state that the main reasons for deviations of inventory management from planned guidelines resulted from inadequate implementation of efficiency principles both in production and product applications. Ineffective planned management and poor utilization of mechanisms and indicators affecting this area are other reasons for failure to meet these targets.

For inventory management to be successful, all levels of every organization must comply with the principles of efficient management, increased accountability, managerial sophistication and control. It is also necessary for enterprises, VHI, sectors, the Czechoslovak State Bank, and ministries of finance, planning, and control agencies to get actively involved.

The Set of Measures for Improving the Planned Management System of the National Economy After 1980, as approved by Czechoslovak Government Resolution No 42/80, decreed that planned enterprise and VHI requirements should be covered as much as possible from profits and depreciation writeoffs. This measure has been incorporated to varying degrees in the financial planning of state economic organizations related to investment. In cases where investment requirements were still met from retained earnings, past trends remained in force to a great extent, meaning that the above principle was effectively ignored. For this reason during the Seventh 5-Year Plan studies were undertaken in several industrial sectors of the financing of investments from investment funds with the intention of generalizing the practice beginning in 1985, if the experimental results warranted doing so. While this form of investment cannot be considered an optimal technique for all firms, especially in sectors where profit and depreciation allocations to this fund are defined as fixed percentages, it does represent some progress in generating the substantial resources required for investment.

There has been some success in the financing of investments from the development fund. This fund covered construction projects costing less than Kcs 2 million, and machinery and equipment not included in construction budgets. The termination as of 1 January 1985 of the category of construction projects with budgeted costs less than Kcs 2 million, however, removed the justification for this fund. Its basic allocation principles (standard allocations from

profits and depreciation, a system for excess allocations, etc.) were transferred instead to the investment fund.

In banking and credit policy fundamental measures were adopted in the area of invoicing, as specified in Federal Ministry of Finance decree No 37/1983, Sbornik, concerning in particular invoicing and payment for capital goods deliveries and for the performance of geological work. The objective of these measures is to exert pressure on suppliers of capital equipment to complete individual projects, to improve the quality of work that is performed, and, finally, to maintain budgeted costs. Evaluating the impact of this decree led to a one-time reduction in 1984 of Kcs 15.2 billion in investor investment requirements, with Kcs 9.6 billion being deducted from capital investment work, and Kcs 5.6 billion from other financial requirements. Working capital resources of suppliers were increased by an equivalent amount.

The effectiveness of this decree is not yet fully evident, partly because:

- a former decree, No 22/1967, Sbornik, remains in force: the limits to noninvoiced work and deliveries related to capital investment have not yet been defined in the context of the new decree for contractors as an independent category of inventories paid for basically by investor payments;

- in most cases marketing budgets do not yet exist, nor are projects being divided into invoiceable units;

- provisions for holding back 10 percent of a project pending completion are not being applied in all cases;

- certain problems between contractors and subcontractors still have not been resolved.

To sum up the results to date related to investment plans and their financing in particular, one would have to say that existing mechanisms are not up to handling the strict demands now facing our economy because of the necessity for intensifying the capital replacement process. One of the main tasks facing management in this area is the integration of the investment sphere with the R&D sphere. These two areas of activity cannot remain isolated, just as the production plan and the technical development plan must be integrated to form a single complex. One way to accomplish this might be to link these areas and their financial requirements through a single innovation fund.

#### Demanding Tasks for the Eighth 5-Year Plan

The Eighth 5-Year Plan, including its financial components, has been conceived of as a part of socio-economic development through 1995-2000. During the formation phase we had to deal with a number of problems and undertake much intensive work in order to develop an internally consistent and feasible proposal for economic growth.



The plan makes the following assumptions:

-- development will take place in an environment of continuing discrimination by western countries and continued indebtedness of third world countries. These twin factors determine many of our economic objectives for this period;

-- we will continue to operate with limited availability, either from domestic sources or imports, of raw material, material and energy inputs.

Given this environment, we had to incorporate into the proposed plan for socio-economic development for the period through 1990 increased value added for material and energy inputs, the more effective utilization of existing production facilities, the accelerated practical application of R&D findings, improved labor productivity, in a word, a stepping up of the capital replacement process. An important part of this will be broader incorporation into the international division of labor and socialist economic integration. This was also a topic of discussion at the 41st executive session of the CEMA for the Comprehensive Program for R&D Progress for the CEMA Countries Through the Year 2000. This program states that "CEMA member countries assert that improving production efficiency on the basis of accelerated R&D progress is a major factor in resolving the tasks facing them, and the implementation of which will require a peaceful environment." (RUDE PRAVO, 19 December 1985)

Based on the above general assumptions and on the quantification of several variants of future development, the financial plan for the Eighth 5-Year Plan contains the following rates of growth for basic economic performance indicators, and compares these with the results of the Seventh 5-Year Plan:

	<u>Seventh 5-Year Plan-Actual</u>	<u>Eighth 5-Year Plan</u>
Outputs	111.6	113.7
Adjusted value added	125.9	129.9
Adjusted profits (excluding extraordinary profits and foreign trade performance)	164.3	180.1
Reduction in materials costs as percentage of total output	5.86	7.18
Reduction in total costs as percentage of total output	3.16	5.58

According to the plan, outputs will increase by Kcs 178 billion to a level of Kcs 1.4791 trillion by 1990. This is an average annual increase of 2.6 percent, in comparison with an average annual increase of 2.2 percent for the Seventh 5-Year Plan.

The average annual rate of reduction in materials costs as a percentage of output is projected at 1.5 percent. In the Sixth 5-Year Plan, this figure was 0.5 percent, and in the Seventh 5-Year Plan, 1.1 percent.

Adjusted value added is projected to amount to Kcs 571.3 billion by the end of the 5-year plan. They are projected to increase by 29.9 percent, or by Kcs 131.4 billion.

The decline in total costs as a percentage of output is due mainly to declines in materials costs. In addition, wages are declining as a percentage of output. On the other side, depreciation is increasing faster than output, thus increasing total costs. This is evident in the continually poor performance figures for capital assets. The target for reductions in total costs is an annual average of 1.1 percent, a level greater than the actual performance in the Seventh 5-Year Plan by a factor of almost two (0.6 percent).

Targets for inventories for the Eighth 5-Year Plan for the construction and industrial sectors are based on tasks contained in CSSR Government Resolution No 169/1985, and provide for a speeding up of the inventory turnover period for these organizations of at least 10 days. Including this acceleration, inventories are projected to increase by Kcs 3.8 billion.

The investment plan for the Eighth 5-Year Plan concerns the enterprises that are key for implementing an accelerated process of economic intensification. In this regard the plan calls for more rebuilding and modernization of existing facilities than was the case in the previous 5-year plan. A program of fuel and energy conservation will be implemented, in part through a program of centrally controlled construction of heat-generating plants.

Because investment as a percentage of gross national income will remain about the same as in the Seventh 5-Year Plan, and will even decline somewhat, there will be a continued worsening in the figure for national income formation per koruna of capital assets.

#### Volume of National Income Formation Per Koruna of Capital Assets

<u>1980</u>	<u>1985</u>	<u>1990</u>	<u>1985/1980</u>	<u>1990/1985</u>
0.410	0.339	0.317	82.7	93.5

This unfavorable trend will continue despite the fact that increasing amounts of obsolete capital assets are being removed from service:

	<u>Seventh 5-Year Plan/ Sixth 5-Year Plan</u>	<u>Eighth 5-Year Plan/ Seventh 5-Year Plan</u>
Pace of removal from service	132.0	156.1



The specific objectives of the investment plan are accompanied by systematic measures which are evident for the most part in financing mechanisms. Among the most important changes is the general introduction of an investment fund to be used to finance the investments of all state economic organizations. In addition to increasing the importance of internal resources for financing, this fund creates a direct link between resource formation (profits and depreciation) and the scope of investment requirements. This connection should be particularly close in those fields (especially construction and industry) where profits and depreciation are allocated by formula.

Some measures in investment financing will have to be reformulated during the Eighth 5-Year Plan, for implementation in the following 5-year plan. One of the most complex of these is the regulation of enterprise revenues in relation to their requirements, especially in the area of capital assets replacement. The basic question here is depreciation policy. In Main Objectives for Further Developing the Set of Measures, it is stated that "firm rules should be established for the redistribution of depreciation at all levels of management with the objective of using it as a way to finance simple capital asset replacement and so that regulations for necessary reallocations of depreciation writeoffs will be unified." The implementation of this correct and at first glance simple principle requires the unification of viewpoints especially on the definition of the category of simple capital replacement. The problem is that the physical replacement of an obsolete piece of capital equipment takes place one time only, while depreciation writeoffs are being taken continually, thus spreading out the value of the equipment. And so on. In and of themselves depreciation writeoffs encompass not only simple capital replacement, but also to a large extent expanded replacement (the Domar effect). Finally, depreciation rates do not correspond to the potential of the national economy or its effectiveness in replacing obsolete equipment. This gets us into the problem of evaluating obsolete equipment. And these are only the most basic problems. For this reason the measures for 1986 (40 percent depreciation writeoffs for industry and construction) must be considered temporary.

It will also be necessary to deal with the question of how to regard that part of depreciation which at a given time in a given economic entity is nonessential from the viewpoint of the investment cycle. Current practice in which this part of depreciation is returned once and for all to the state budget, has much to recommend it but also has the drawback that it makes it impossible to measure enterprise management efficiency over the long term. It is appropriate for annual management evaluation, but is at variance with generally accepted principles of enterprise accountability for long-range development. One suggested resolution is the temporary deposit of this portion of depreciation. This appears to be the correct solution, but we will have to run the numbers to be sure.

The Czechoslovak economy entered the Seventh 5-Year Plan facing very difficult domestic and foreign conditions. The main problems included discriminatory measures taken by capitalist countries in foreign relations and internal payments dealings. The economy faced the task of paying off previous loans and of wearing

the entire capital replacement process from previous levels of material inputs. Under these conditions, it became necessary to place great emphasis on managerial effectiveness and efficiency in all areas of economic activity.

The data presented earlier in this article show that the financial plan plays an important role in these efforts. Although the objectives of the Seventh 5-Year Plan were not always fulfilled one cannot help but see a certain turnaround evident in increasing quality throughout the capital replacement process.

At the same time we must be aware that this progress is far from adequate to fulfill all the tasks that face the economy for the Eighth 5-Year Plan. During this period we need on the one hand to modernize rapidly the production base at the same time that we are restructuring it, while on the other hand, and this is the objective of a socialist economy, improving the standard of living through personal and public consumption. Then it will be necessary to integrate elements of intensification into this process, above all our considerable R&D potential. Analyses have shown that reductions in the materials intensiveness of production in the Seventh 5-Year Plan occurred in the most easily accessible areas. These easy savings will soon be exhausted, still leaving, however, significant areas for potential savings. In addition to conservation efforts, we will also have to pay attention to effective and well thought out programs of cooperation and specialization, both in foreign relations and in the practical application of R&D findings. The financial plan will play a role here, as one of the mechanisms of economic policy that can have a significant impact on these processes.

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## CORRECT USE OF EXPORT INCENTIVES DISCUSSED

Prague HOSPODARSKE NOVINY in Czech No 47, 1986 p 4

[Article by Eng Lubomir Hejl, Federal Ministry of Finance, Eng Miluse Banciova, Czechoslovak State Bank, and Eng Vaclav Subrt, Federal Ministry of Foreign Trade: What Needs to Be Learned. Assistance for Correct Use of Export Incentives.]

[Text] The new directive concerning export incentives for commercial activity with foreign countries (appendix HN No 46/1985) has been in effect since January 1, 1986. In the more than 6 months since then it has become obvious that it is not being fully and correctly used in all instances. We consider it useful, therefore, to focus our attention again on this economic instrument and, by providing practical suggestions, assist employees of organizations to apply it properly.

The directive has 12 sections. The first section specifies those who qualify for export incentives, the second to ninth sections designate export incentives for areas of commercial activity with foreign countries and concern packaged as well as bulk goods, the export of complete industrial plants, the reduction of imports and export of manufacturing rights, special types of tangible and intangible exports and the export of services. The 10th section defines conditions for granting preferential treatment in foreign currencies to citizens who are authors or co-authors of inventions, discoveries, industrial prototypes, or proposals for improvements which were introduced into trade with foreign countries through the offices of the Organization for Foreign Trade; the 11th section describes the rules for using the entitlement funds.

#### Planned Tangible Export

First of all, the directive defines what export incentive consists in:

- a) the possibility of gaining rights to export incentive. These represent the right to exchange Kcs funds for foreign currencies. According to the terms of Law No 14/1970, Laws of the Czechoslovak Socialist Republic concerning management of foreign exchange, this means easier payments in foreign currencies;
- b) the possibility of imports for the foreign exchange thus obtained, while adhering to the conditions specified in paragraph 34 of the directive. The

right to exchange currently takes effect on the day when entitlement funds are credited to an account at the Czechoslovak Bank of Commerce. In this connection we should point out the existence of the state foreign exchange monopoly, administered by the CSSR government (paragraph 2 of the above mentioned law). In some special cases this could be a factor, for example, in other than a prompt exchangeability being arranged.

Entitlements credited to the account of export incentive are not lost at the end of a year.

The proposal for calculating the share, which becomes an entitlement when it is credited to the account at the Czechoslovak Bank of Commerce, takes as its source the individual sections of the ordinance. After completing the proposal, organizations then submit it for incentives for the current year according to the second, third and fifth sections by the end of February of the following year. In those cases when the central management unit does not qualify for the export incentive, it will collect applications from all the organizations under its management, verify the data contained therein, and prepare an overview of the whole central management unit broken down into individual production organizations, including those that did not meet the conditions for granting the entitlement. Then it submits everything to the Czechoslovak State Bank headquarters, department 321. Associations or production cooperatives follow the same procedures.

Shares calculated according to other sections of the directive are submitted by the appropriate applicants to the bank on a continuing basis, for the current year by January 31 of the following year at the latest. This time limit does not apply to requests for granting entitlements for the export of complete industrial plants.

The condition of, and changes in, the entitlement accounts are monitored by recipients of export incentives in their operational documentation. It is in their own interest, particularly considering the possibility of using a certain portion of the granted entitlement for importing equipment that would improve the workers' healthcare and work safety. To this end, organizations should keep documentation which sets aside 10 percent of each granted entitlement. In this way they will always be able to see how much of the entitlement can be used for such purposes (after deducting entitlements already used). The point of departure is the status of September 30, 1985.

The task of the state export plan, which was assigned and specified in detail by the central agency to production foreign trade organizations, cooperative associations, and national committees, is always understood to be the economic plan valid up to December 30 of the current year in accordance with the valid planning method. Exports undertaken under section 4 (complete industrial plants) must not be undertaken by the production organizations under section 2 and vice versa. Similarly, exports undertaken under sections 6 to 9 are not counted as part of the fulfillment of the tangible export plan. If, however, foreign trade organizations count them as part of their export plan, the rate for the production organization is then reduced by one tenth, i.e., from 50 percent to 45 percent, from 40 percent to 36 percent, etc.



The basis for calculating a share is derived from the data at the Automated Foreign Trade Centre or from the balance sheet of the Czechoslovak Bank of Commerce when dealing with foreign currencies in cash. Value, which in sum corresponds to statements submitted for release of foreign exchange for payments in accordance with the Conditions of the Czechoslovak State Bank for Releasing Foreign Exchange for covering obligations arising from commercial activities with foreign countries and for payments abroad, which were published in March 1986, is considered to be the realization of tangible exports in values franco Czechoslovak border.

Classifying those qualified for export incentives into groups A, B and C with differentiated rates for calculating shares already has been established for the year 1986 by a joint resolution of the Federal Ministry of Finance and the Federal Ministry of Foreign Trade and sent to individual production departments. The classification was determined by the level of performance and export efficiency. Central management units and foreign trade organizations were informed accordingly.

#### Complete Industrial Plants

For differentiating deliveries of complete industrial plants from parts deliveries (for example, sets of spare parts) the determining factor is a written agreement between the export supplier and the export purchaser.

If an agency contract was negotiated between a foreign trade organization and the main supplier, such a contract is considered, for the purpose of export incentive, to be an economic contract under paragraph 361 and subsequent of the economic code. However, all arrangements necessary for the export incentive must be incorporated into the agency contract.

The export of construction work is considered to be an export of complete industrial plants in such cases where it is so designated in the trade contract made between the export supplier (production organization which supplies construction work for export) and the foreign trade organization. The foreign trade organization has the obligation to inform the appropriate export supplier every time export considered to be export of complete industrial plants is carried out.

The joint share for the foreign trade organization and the principal supplier is calculated from the total volume of export achieved by multiplying by a rate differentiated according to the level of replacement costs reached. Replacement costs are determined by comparing domestic costs plus trade surcharge and deduction by the foreign trade organization to the discounted cash in percent. Replacement costs of 100 percent are considered to be the standard.

The relations between the foreign trade organization and the production organization as principal supplier are currently being modified in all resolutions. As long as a principal supplier is not designated, either because it is not necessary or because that function is being fulfilled by an association of suppliers, the determining factor will be whether there exists a socialist organization within the supplier-consumer relations which would guarantee the entire delivery for the foreign trade organization (a sole supplier, a manager



of the association organization which will assume the guarantee, etc). In such instances these organizations are considered, for the purpose of dividing shares and reserves, to be the principal supplier. If a principal supplier has not been designated, although that should be done, and furthermore in cases where relations between the domestic suppliers and the foreign trade organization have been negotiated by more than one contract, the entire share goes to the foreign trade organization, which then follows the same procedures in distributing the entitlements as would the principal supplier. The foreign trade organization thus receives altogether 36 percent of the share and distributes 64 percent among individual suppliers.

The condition to conclude a contract for the distribution of entitlements within 6 months is considered to have been met in the case of those suppliers who negotiated trade contracts with the principal supplier on terms which are in accord with the conditions of foreign trade contracts. This condition is considered fulfilled even the case of a supplier who negotiated a trade contract which resulted from technological development in the course of manufacturing a complete industrial plant with the principal or lesser supplier within 6 months from the date of the initial domestic inquiry in accordance with its requirements.

#### Unplanned Export

Applications for granting entitlements are submitted in the form of appropriate tables based on cash in hand or credited to the Czechoslovak Bank of Commerce after an agreed upon business transaction has been concluded currently and by the end of January of the following year at the latest. The bank grants entitlements quarterly on the basis of applications which it has received by the end of the quarter at the latest. In the case of deliveries included in inter-state credit agreements, the request for granting entitlements is submitted on the basis of deliveries made, unless otherwise stipulated.

In revenue, cash is understood to be the equivalent value of the foreign currency earnings in Kcs as calculated by the Czechoslovak State Bank. Payment is considered to be the equivalent value in Kcs of expenses in foreign currency incurred as a result of concluding and executing a contract: it is determined by the accounting and statistical data of the foreign trade organization, in the case of licensing and similar contracts also by the accounting and documentation of the Foreign Trade Enterprise Utrin, and has the so-called foreign trade organization commission deducted from it. Costs in Kcs which are not paid in foreign currencies even on an intermediary basis (for example, domestic transportation costs in contrast to transportation costs abroad which in the final phase represent payments in foreign currency to the transport organization) are not considered as payments in foreign currency.

The exporting foreign trade organization is obliged (paragraph 9 column 4 of directive No 5/1973 Bulletin of the Federal Ministry of Foreign Trade) to consult the Foreign Trade Enterprise Polytechna on conditions for selling contracts for active licenses, which are up to Polytechna to negotiate (when they are negotiated independently). Polytechna informs upon request the appropriate foreign trade organization that this condition has been met. If

this condition has not been met, the organization is not granted its entitlement and the exporting foreign trade organization transfers to the organization from its own account a sum corresponding to the sum which otherwise it would have been granted.

Among contracts referred to in paragraph 26, sub-paragraph b) are understood to be also contracts for sending specialists under government resolution No 58/1970. Under sub-paragraph c), in case of contracts for services or repair work, are understood to be included also foreign currency savings in the form of a guaranteed lump sum, or other possible discounts arising from the terms of the contract. Under sub-paragraph d) are understood to be contracts for the leasing of premises and the leasing of areas for advertising purposes. If the foreign trade organization includes these exports, or rather the cash earned from them, in its own planned export, the corresponding rates of organizations are reduced by one tenth.

#### Using Foreign Currency

There can no exceptions made in this section of the directive. The foreign currency entitlements cannot be used to purchase passenger cars, for reimbursements of professional study trips, schooling, or official travel. All those imports or reimbursements can be made only through the plan for non-trade payments. Furthermore, we must point out the errors which are made by some organization managers. Without having a foreign currency permit, they enter into negotiations with foreign nationals and only later apply for permit to make payments out of the export entitlement. We are talking, for example, about costs for publishing the address or an organization in foreign telephone or telex directories. Such a procedure is in conflict with the laws of foreign currency management and could be said to be a violation of those laws. Such reimbursements have to be included in the foreign currency plan as well.

Prior to January 1, 1986, entitlements could be used only for imports which would boost exports or contribute to decreases in imports. For the Eighth 5-Year Plan the use of entitlements has been substantially broadened. According to the new rules, anything that will help to improve the technological and economic level of domestic or of the suppliers' production can be imported. This will enable producers to modernize also the equipment which is not used directly for export production. In this connection, there are sometimes doubts about the feasibility of importing spare parts. Such fears are unwarranted, because spare parts in reality make it possible to achieve the same results more cheaply than with importing a whole piece of equipment.

A particularly positive response was given to the modification which allows the use of entitlements for imports which contribute to improvements in living and working conditions and imports for improving the standard of health care of the working people (use under sub-paragraph c) and d)). This opened up the possibility of negotiating a number of collective contracts and a broader cooperation between organizations and local health care facilities.

The request for transferring entitlements to an importing foreign trade organization or a coordinating organization is submitted by the owner of the account

to the Czechoslovak State Bank on an appropriate form. The owner also assumes full responsibility for using the entitlement in accord with the directive. Transfer of entitlements between organizations is done by Czechoslovak Bank of Commerce upon receiving a letter from the owner. Although a transfer does not have the same aspect as use, certain rules, that have to be followed, also apply. Organizations which supply the foreign trade organization and thus assist it in fulfilling its export assignments, are also considered to be suppliers by the directive.

In the case of joint entitlements of several organizations for common use, the organizations decide to whose account the other members will transfer their entitlements and who will then submit the application for transfer to the appropriate foreign trade organization. The disposition of the property will be settled by the organizations according to valid regulations on associating (Publication of the Federal Ministry of Foreign Trade, the CSR Ministry of Finance and the SSR Ministry of Finance No 151/1978 Laws of the Czechoslovak Socialist Republic on combining resources of socialist organizations in the tenor of publication No 15/1984).

All imports which have the goal of improving health care are done by transferring entitlements to the Health Care Supply Organization in CSR and to the National Enterprise Medika in SSR, to their coordinating account of export incentive. Basically, these imports cannot be handled otherwise. This procedure ensures the feasibility of combining entitlements without having to negotiate contracts according to the economic code and regulations that follow from it. At the same time, it ensures that the operability of the appropriate equipment is maintained.

We presume that the standing inter-departmental group for export incentive composed of employees of the Federal Ministry of Finance, the Federal Ministry of Foreign Trade, the State Planning Commission, the Czechoslovak State Bank and the Czechoslovak Bank of Commerce will conduct, in cooperation with the Czechoslovak Chamber of Commerce and Industry, working actively for organizations that fall within the scope of the directive. Furthermore, we would like to call attention to Bulletin of the Czechoslovak State Bank No 5/1985 and Bulletin of the Federal Ministry of Foreign Trade No 1/1986, and to the independent publication of the Federal Ministry of Finance for use by financial and auditing agencies, where individual regulations of the directive are explained in detail. We are also calling attention to the change in the bulletin of the Office for Inventions and Discoveries No 106/1972 Laws of CSSR, on rewarding discoveries, inventions, improvements, and industrial prototypes which was replaced this year by publication No 27/1986 Laws of the Czechoslovak Socialist Republic.

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## PREVIOUS, CURRENT 5-YEAR PLANS SHOW DEFECTS IN FOREIGN TRADE

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[Article by Graduate Economist Maria Haendke-Hoppe of the (West Berlin) Research Institute for Inner-German Economic and Social Issues; presented at the institute's 12th symposium held on November 20 and 21, 1986 addressing the theme: "The GDR Economy under Pressure to Perform and Subject to Forced Innovation." Original title of article: "Initial Difficulties in Foreign Trade."]

## [Text] I. Introduction

For the third time within one decade the GDR economy finds itself confronted with external influences in the first year of a new planning period which hamper the implementation of the foreign economy plan. In other words, they have caused initial difficulties. "Oil price" is the oversimplified brief formula for it. To put it more distinctly, it is the worsening of the terms of trade through raw material, especially oil price development.

1. Already the start of the 1976-1980 planning period showed the impact of the first oil price shock on the market, in 1973/74, and its effects on the CEMA price setting mechanism as of 1975. First the terms of trade worsened in transactions with the developing countries and the western industrial countries and then, rapidly, with the USSR.
2. For the next 5-year plan period from 1981 to 1985 a stabilization concept had been designed to get the problems under control that had been generated by the first oil price explosion and escalated after the second oil price shock of 1979--the growing indebtedness to east and west. That concept, as one knows, was abruptly destroyed in the first planning year, 1981. In the wake of the international confidence crisis at the banks, triggered by the insolvency of Poland and Romania, the sources for new credits and credit extensions dried up also for the GDR. Another serious element was the curtailing of the contractually pledged Soviet oil deliveries of 19 million tons to 17 million annually as of 1982.<sup>1</sup> Today, by the way, it is immaterial from which side the curtailment came. It certainly had not been planned when the 1981 national economic plan and the 5-year plan came out. That curtailment, furthermore, still was accompanied by an extreme 48-percent hike for Soviet oil as of 1982, which could be explained only by a changed price setting modality.<sup>2</sup> The same applied to natural gas.



3. It is downright paradoxical that in contrast to the two previous planning periods, at the start of the current 1986-1990 5-year plan the planning structure is getting upset, of all things, by the rapid drop in oil prices on the world markets. Meanwhile the GDR advanced to one of the most important exporters in the mineral sector among non-producing countries.

## II. The Last 5-Year Plan Period

What triggered the above mentioned, probably most serious, crisis in the GDR foreign economy around the turn from 1981 to 1982 undoubtedly was that western credit sources had dried up, but the causes for it lay in the economic weakness of the past that had shaken the trade and performance balance.

At the time, as one knows, the GDR economic management reacted by a finance and trade policy crisis management. That crisis management concentrated on western exports at any cost and a sharp trimming of hard currency imports. That related not only to inner-German trade. The special conditions of inner-German trade, which is transacted, as one knows, not in terms of foreign exchange, but of clearing units, probably even averted a collapse of the domestic economy.<sup>3</sup>

The decisive financial relief came from the commercial Eurocredit without strings at a clip of DM 1 billion in the summer of 1983, committed by the FRG government. With its help and with that of the second credit, in 1984, once again secured by the FRG government, the GDR managed not only to consolidate its performance balance, but even to reopen the international credit markets. By late 1985 the foreign economy situation showed itself visibly relaxed, even if not permanently consolidated.

1. The shaken trade balance deficit of VM 28.6 billion at the end of 1980<sup>4</sup> at the end of 1985 contrasted by a VM 25.9 billion surplus (cf. Table 1).
2. The statistically recorded indebtedness in convertible currency at the end of 1985, showing \$ 5.5 billion, was cut in half.<sup>5</sup> This came about, however, not by reducing the gross debt, but by increasing assets from \$ 2.2 to 6.5 billion (cf. Table 11).
3. The expansion of western exports led to a significant shift in the regional structure. The structure of the last 5-year plan, of 70 percent of the trade with socialist and 30 percent with non-socialist countries had nominally shifted to a 2/3:1/3 ratio. The structural shift nominally came mainly at the cost of the small CEMA countries, whose proportion dropped from an average 31 to an average 25 percent (cf. Table 2). The real shift is still larger. According to the price base for 1970 as published in the Statistical Yearbook of the GDR, 35 percent goes to the nonsocialist countries. Through this shift in regional structure, the GDR now--following Hungary and Romania--has the widest western trade linkage among the European CEMA countries. In the past, together with Bulgaria and the CSSR, it formed the taillight.

The GDR paid a high price in its domestic economy for this foreign economy relaxation. That is known to include, according to GDR statistics, not clearly identifiable losses in growth, an investment jam, and a curtailment of private consumption.



In the foreign economy the forcible consolidation policy had generated new mortgages that were to lead to initial difficulties.

The first mortgage came in the mounting trade deficits vis-a-vis the USSR. The constantly worsening terms of trade, in consequence of the second oil price shock in 1979, but also the export detours into western trade, not only foiled the originally planned reduction of the deficits, but made them grow up to the end of 1985 to 3.3 billion transfer rubles (cf. Table 12).

The reaction to the dwindling of imports from the GDR were cutbacks in Soviet raw material deliveries as well as, mainly, in the deliveries of finished goods. In transportation vehicles, e.g., of the total of nearly 190,00 vehicles contracted for, 160,000 passenger cars included, no more than 40 percent was shipped.<sup>6</sup>

Semi-official GDR authorities, to be sure, deny the fact of liabilities toward the USSR by arguing that the GDR had performed high investment participations in the USSR, and that Soviet statistics were differently set up as they contained no services performed. Against that, one has to call attention to the following:

- a) As long as GDR statistics list no export and import figures, one has to rely on Soviet data.
- b) The volume of investment participations, according to a single source known thus far, presumably exceeded the sum of M 10 billion significantly in the last 5-year plan.<sup>7</sup> Investment participations in CEMA, there being no capital market, largely are payments in kind, entering the foreign trade statistics as such. In looking at the trend of the GDR's foreign currency assets, one would not be likely to think of financial participation in the form of hard currency transfers.
- c) The argument about the different setup does not sound plausible because the GDR data, if it also included services, evidently should be higher than the Soviet data. But that was not so.<sup>8</sup>

The second mortgage of the last 5-year plan is the highly deformed commodity structure in western trade. The surplus in western trade, due to the lack of traditional export commodities of the investment commodity sector, was achieved primarily by boosting the export of mineral oil products. Those products, in 1982 and 1983 alone, commanded a share of 30 percent of yields, from western trade as well as inner-German trade. They had thus become the number one foreign exchanger provider. Though it was correct to concentrate on a single, if price-sensitive, commodity group when world market prices were high and CEMA prices low, it could still only be a short-range emergency program. This contingency program, furthermore, was anything but investment-neutral but caused considerable expenses, for one thing by expanding the refinery capacities at Leuna and Schwedt, and then by a still more radical substitution than necessary of lignite for petroleum. It is not precisely known how high the exports in this sector actually were. The figures in the CEMA statistics shown (cf. Table 10) indicate that between 1981 and 1985 more than twice as much (26.6 million tons) was exported than between 1976 and 1980 (11.7 million).

In addition to those exports there were, especially in 1982 and 1983, so-called revolving business transactions with crude oil (purchase against credit, sales for cash) of unknown size, which did not surface in the foreign trade statistics. According to estimates from the All-German Institute and from DIW, the GDR's annual own consumption was brought down to 10 million tons, which left over circa 13 million tons for further processing and export. According to semi-official GDR sources, domestic consumption of crude oil lies around 13 million tons, which would leave 10 million tons for further processing and export.<sup>9</sup>

The third mortgage came from the strong restraint on western imports, which mainly led to curbs on technologies. The 1981-1985 import volume dropped by nearly 3 percent of that of the previous 5 years (cf. Table 5).<sup>10</sup> The proportion of investment goods in imports dropped from barely 26 percent in 1980 to an ample 22 percent in 1984. In 1976 that proportion had still been almost 32 percent.<sup>11</sup>

In contrast to the import policy in OECD trade, things ran favorably in the inner-German trade. Here GDR imports between 1981 and 1985 were boosted by nearly 43 percent (cf. Tables 6 and 7). Because of the unfavorable commodity structure and due to the fact that in 1982 and 1983 imports from the FRG were sold to third countries, inner-German trade furnished no adequate balance, however, for the GDR's import restraints among the other OECD countries.

### III. The Foreign Economic Program till 1990

The 11th SED Congress in April 1986, like its predecessors, again furnished but sparse foreign economy skeleton data. Compared with the 10th party congress they were even still less substantive. The in part dramatic development of the 5-year plan just ended merely crystallized in reiterated formulations about the global strategy till 1990. All the forces were to be concentrated on "further reinforcing the GDR's economic unassailability" and expanding "the trade policy leeway." That postulate must clearly be understood as the motor for the entire immense old-new technology program for the current 5-year plan period. For one thing, there stands behind it the further integration in CEMA, demanded since the CEMA summit in the summer of 1984 by the USSR, in cleartext meaning integration with the USSR, to reach independence from the West. To nail that down, the GDR signed long-term target programs on cooperation up to the year 2000 with all CEMA countries. The one with the USSR has an outstanding place value for the GDR because of its high degree of foreign trade linkage. The quality and quantity of GDR exports demanded, to ensure future raw material imports from the USSR, contemplate, along with industrial modernization, a production restructuring. Two figures illustrate the USSR wishes in this respect. While raw material import volumes are to remain more or less constant, the exports of industrial consumer goods and of chemical products are to be raised by 40 and 50 percent respectively; and qualitative improvements become the decisive factor.

At the 11th SED Congress, CPSU General Secretary Gorbachev outlined the future cooperation as follows:<sup>12</sup> "Comrades! We cannot envisage the future of the Soviet Union without the cooperation with the GDR and the other fraternal countries. And this not only because our internationalist conviction commands us to,

but also because without this cooperation the complicated tasks cannot be resolved the age is assigning us. I think we all can sense the socialist countries are entering a period in which the cooperation among them must be raised onto a higher level. And that not only by one stroke or another but, as the mathematicians would say, by a whole order of magnitude."

The relative statements from Honecker and Stoph sounded less euphoric.

From the data known thus far the following projections till 1990 can be drawn (cf. Table 3):

1. A volume of over VM 380 billion (based on 1984/85 prices) was agreed on with the USSR.<sup>13</sup> That is tantamount to a 26-percent growth. The annual factual growth rate for 1985 is circa 3 percent. The proportion is to rise to 40 percent of total sales planned already, but not attained, in the last period. The projected overproportionate growth of exports of 30 percent points to the reduction of the above mentioned deficits.
2. From these data one computes circa VM 925 billion for the 1986-1990 volume of total trade, which is a 20-percent growth rate.
3. The gross regional structure that evolved in the last 5-year plan is by no means to be shifted for the good of western trade. The salient passage in the party congress directive sounds like a guarantee declaration: "Through a dynamic development of the foreign trade relations with the USSR and the other socialist countries, it is to be made sure that roughly two-thirds of the GDR's import-export will be transacted with the USSR and the other socialist countries."
4. The total volume set for the other CEMA countries at a clip of VM 220 billion--amounting to an annual growth rate of less than 1 percent--amounts to anything but the dynamic demands as of the above, but rather the opposite of it, another trade interlinkage here being preprogrammed for the benefit of the USSR. The share would thus drop by an average 23 percent in the second half of the 1980's from still 31 percent in the second half of the 1970's (cf. Table 2).
5. For the trade with the non-socialist countries a proportionate growth of circa 20 percent is projected here. It is to provide "important" export surplus as to western industrial countries. The rate of growth is to be determined through products of the metal processing industry. The ticklish point of spare part supply is explicitly addressed.
6. There is no room left in this projection for any above proportionate trade expansion with the socialist non-CEMA countries, i.e. principally Yugoslavia and China.

#### IV. A Digression: Economic Relations with China

For a topical consideration the question about the GDR's future trade with China and its importance is raised for the first time in decades.

In late October 1986 Erich Honecker visited the PRC.<sup>14</sup> This trip, being among the most spectacular state visits of the State Council chairman and SED party boss, forms the high point for the time being in the thaw in the icy relations between the two countries.

Very intensive relations had developed in the 1950's on the ideological as well as on all other levels. In the mid-1950's China, with a share of 7.5 percent, was the fourth most important trade partner of the GDR after the USSR, the FRG and Poland.

Due to the Moscow-Beijing split, the relations between East Berlin and Beijing also had to be put on ice, if rather reluctantly.

The trade dropped rapidly to a share of less than 1 percent in GDR import-export. Its absolute low, however, it only reached in 1983 with but a proportion of 0.2 percent of total trade (cf. Table 8).

In December 1983, again a GDR minister for the first time after 20 years visited the PRC.<sup>15</sup> Then contacts heated up and reached their first high point when in May 1985 Vice Premier Li Peng, heading a large delegation, was welcomed by Erich Honecker. In June 1985, Schuerer, the chief of the planning commission, went to China to sign the long-range trade agreement for 1986-1990. He was the first GDR visitor to meet with Hu Yaobang, general secretary of the CPC. Then, in December 1985, People's Chamber president Sindermann was welcomed by Hu Yaobang who used the occasion to recall the "fraternal ties" between himself and Erich Honecker in the international youth movement.<sup>16</sup>

The 11th SED Congress in April 1986 was, however, not attended by the CPC, not yet by a delegation at least. Yet Erich Honecker noted "with satisfaction a gratifying improvement of the relations" between the GDR and the PRC.<sup>17</sup>

In foreign policy, the revived relations at the present time are likely to have a higher place value for the Chinese than for the GDR, as a bridge, that is, for the still not completed reconciliation with the USSR.

The reviving of economic relations ought to be also of greater importance to Beijing than the GDR for the time being. The plants the GDR set up in China in the 1950's badly need rehabilitation; since the GDR experts left in the 1960's there has no longer been any modernization or expansion.

Trade relations, compared with how flat they were before, still are not likely to grow into the sky in the new 5-year plan. In spite of the planned expansion by two and a half times the volume of 1981-1986, the share of China trade in overall GDR trade is most likely to remain far below the 1-percent mark even in 1990. In 1985, at VM 770 million, one only got back to the trade there was in 1955. In contrast to 1955, however, that came only to a share of 0.4 percent in the GDR's total foreign trade (cf. Table 8).



## V. Initial Difficulties in the First Plan Year

Neither the directive nor the party congress speeches or the semi-annual report on plan fulfilment suggested that most recent world economic developments, which in their full scope could hardly have been taken into account in the 5-year planning, let alone in the 1986 national economic plan, led to initial difficulties.

Already since 1983 oil prices slowly declined, dropping to 13 percent below the late 1982 price late in 1985. But the rapid drops occurred only in 1986, in the first half of which the oil price had been cut in half.<sup>18</sup>

The CEMA price, on the other hand, because of the price averaging from 1982 to 1985 increased by 33 percent. Only in 1986 it dropped, but meanwhile--regardless of whether it is based on a 3-year average or a 5-year average--it is twice as high as the average world market price (cf. Table 9).

But it was not only the oil price that dropped rapidly but, since mid-1985, the rate of the U.S. dollar as well. For the GDR export economy that means it lost competitive price advantages which it had enjoyed while the dollar rate was high on western markets, especially in the FRG. Of late again it finds itself confronted with the aggressive competition with the East Asian threshold countries using dollars.

The effects of the price decline in oil can clearly be glimpsed from the shrinking GDR export revenue in the first half year (cf. Table 6). The losses vis-a-vis the most important buyers of mineral oil products, Sweden, Norway, Netherlands, Britain, and Denmark, lay between 41 and 8 percent.

In inner-German trade likewise the decline in GDR deliveries was exclusively due to mineral oil products but here, in contrast to other countries, some balance was achieved through the cheaper crude oil imports from the FRG. Import-export on the whole thus shrank, but since the volume framework survived, there was a structural improvement.

Now the objection may be raised that for the circa 4 to 5 million tons of crude oil the GDR is importing in addition to the crude oil imports from the USSR and in inner-German trade from OPEC countries, import expenditures were reduced. Yet in the trade with those countries, especially Iran and Iraq, the GDR had a surplus anyway. Export commodities becoming additionally available can hardly be channeled into western trade.

In the GDR imports, for the first time strong additional imports can be seen from those countries that had been in recent years the victims of the embargo--except for France. That means Italy and Belgium and Switzerland.

Imports from Austria, at 28 percent, declined conspicuously. As the initial level was low for imports, even for 1986, looking at it cautiously, one may expect GDR export surplus in its OECD trade. One has been buying from the GDR investment commodities, especially textile machinery, chemical products, and means of transportation. And diversification endeavors evidently exist vis-a-vis the inner-German trade. For example, the first power-plant gas desulphurization



plant in the GDR for the Berlin-Rummelsburg power-plant was bought, for 40 million pounds, in Britain, not in the FRG.

The GDR keeps insisting on reciprocal business, but what it has to offer, has been much broadened meanwhile.

What with all reservation about semi-annual figures, the trade with the USSR in 1986 seems to have been fairly baffling, for in spite of all planning GDR exports for the first time declined, and this by nearly 9 percent. At 340 million transfer rubles, one of the highest deficits in recent years occurred (cf. Table 4). Whether that was balanced out up to the end of the year is rather doubtful. The plan fulfilment report for the first half year reports, in contrast to this trend taken from Soviet statistics, that export-import quotas for the first half of the year had been met.

## VI No Innovation Thrust through Eastern Integration

After the end of the first year in the new 5-year plan period the point must be made that the foreign economic development hardly went according to plan. This raises the question, however, whether one could have succeeded in getting closer to the two strategic goals till 1990, reinforcing the economic unassailability and expanding the trade policy elbow room. Forcible innovation<sup>19</sup> is supposed to be the decisive means to, primarily, boost the export volume.<sup>20</sup>

Was it at all possible in 1986 already to set the switches for structural changes and production modernization so emphatically that a simultaneous structural and qualitative change of the west and east export potentials came closer? Investments placed far beyond the initial plan might warrant some cautious optimism here.<sup>21</sup>

More cooperation with the West could greatly support the innovation aspirations. That has so far remained a paper tiger. The GDR still is the taillight in co-operation agreements, the emphasis of which, furthermore, lies on concluding compensation and reciprocal business, called cooperation only because the GDR thinks of them that way.<sup>22</sup> Of late it appears GDR economic management might be more open-minded now than in the past. Joint ventures, e.g., are perfectly conceivable for the future, even if hardly with FRG firms.

In conclusion there comes the question then whether important impulses could evolve from the cooperation within the framework of socialist economic integration in CEMA for the innovation aspirations.

The 41st CEMA conference in December 1985 in Moscow passed a new comprehensive program<sup>23</sup> for the scientific-technical progress of the CEMA member countries up to the year 2000, which had been prepared at the economic summit and the 38th CEMA conference in 1984. This program forms the framework for the CEMA countries' concerted action in matters of innovation policy.

Its five key points, which have entered the 5-year plans of the CEMA countries, are the following:<sup>24</sup>

1. Electrification of the economies
2. Complex automation
3. Nuclear energy
4. New working materials and technologies for their production and processing
5. Biotechnology

As formulated in the principles for the comprehensive program, the member countries thereby assume the "truly revolutionary" task to achieve the highest level of science, technology, and production in the most important trends of the scientific-technical progress through implementing this program. By the year 2000 labor productivity is at least to be doubled and the expenditure in energy and raw materials is to be reduced specifically per unit of national income.

Economic security and technical-economic independence are to be reinforced by the year 2000. To bring that about, one wishes to resort, among other things, to reviving the direct relations among the enterprises in production and science, which was already a familiar feature in the first comprehensive program of 1971.

At the 42nd CEMA conference in November 1986 in Bucharest meanwhile a number of bilateral government accords on direct relations in the sectors of production and science and accords on setting up joint enterprises to implement the comprehensive program were signed. The surprise of the conference was the summoning of a meeting of the party chiefs only 4 days later, in Moscow. This unexpected quasi summit--declared a working meeting as one late in 1985--evidently was caused by dissent at the Bucharest conference which, according to CEMA Secretary Sychev, had a critical atmosphere.<sup>25</sup> PRAVDA wrote<sup>26</sup> that the success of CEMA was undeniable, but current tasks were immense.

"Bucharest had found that enormous work would have to be done if one wanted to solve the most important questions by means of the CEMA comprehensive program up to the year 2000, especially in the field of planning. All inner and intra-governmental obstacles and a bureaucratic style would have to be dumped overboard."

Czech Premier Strougal expressed harsh criticism of the functionality of CEMA.<sup>27</sup>

The tasks set down at the 1984 summit for investment coordination had not been met nor had decisive tasks to implement the complex program of 1971 been carried out. The latter had shown "minimal results," according to Strougal, in the field of the "socialist" devision of labor in foreign trade, currency, and price matters. Shortly before he took off from Bucharest, Strougal deplored<sup>28</sup> that one had not accomplished, through plan coordination up to 1990, the requisite dynamics in mutual trade relations. He further complained that one was lagging behind in nuclear energy development by 50 percent as to the plans announced 10 years ago. Even by the year 2000 one would still be behind the planning figure of 1974, which would create big problems for CSSR enterprises specialized in power-plant construction. As to the starting up of the comprehensive program, delays had been noted at the CEMA conference, according to Strougal.

This new wave of criticism and self-criticism in CEMA--of which as of now there are no signs, to be sure, in the GDR--conforms to the line of the Soviet party boss Gorbachev; it evidently is meant to stir up the stagnating "socialist" economic integration.

That is possible only, as the Romanian party boss Ceausescu intimated at the Moscow quasi summit,<sup>29</sup> by renouncing "certain practices" and through new forms of economic planning and relations.

Realizing that the comprehensive program is still in its preparatory phase and knowing from experience, as Strougal also stressed at the Bucharest CEMA conference,<sup>30</sup> that cooperation problems are the toughest during the production phase and, finally, recognizing that within CEMA the GDR is technologically on top all by itself, decisive quality leaps are hardly to be expected for the GDR by 1990 from integration.

Table 1: Regional Structure of GDR Foreign Trade 1976-1985 (in billion VM-- at effective prices)

Year	Socialist Countries			Nonsocialist Countries <sup>1</sup>		
	Import	Export	Balance	Import	Export	Balance
1976-80	175,1	172,1	- 3,0	90,6	65,0	- 25,6
1981	44,9	43,6	- 1,3	22,1	22,3	0,2
1982	47,8	47,9	0,1	22,0	27,2	5,2
1983	50,6	54,0	3,4	25,6	30,2	4,6
1984	55,6	58,7	3,1	27,9	31,7	3,8
1985	58,2	60,8	2,6	28,5	32,7	4,2
1981-85	257,1	265,1	7,9	126,1	144,1	18,0

Year	Total		
	Import	Export	Balance
1976-80	265,7	237,1	- 28,6
1981	67,0	65,9	- 1,1
1982	69,9	75,2	5,3
1983	76,2	84,2	8,0
1984	83,5	90,4	6,9
1985	86,7	93,5	6,8
1981-85	383,3	409,2	25,9

<sup>1</sup>Western industrial countries, inner-German trade and developing countries

Sources: GDR Statistical Yearbooks, East Berlin; CEMA Countries Statistical Yearbooks, Moscow (in Russian)

Table 2: Regional Structure of GDR Foreign Trade at the Average of Years 1976-1980 and 1981-1985, shares in percent (effective prices)

Regions	Turnover		Planned 1986/90	Export		Import	
	Actual 1976/80	1981/85		1976/80	1981/85	1976/80	1981/85
Socialist countries	69	66	67	72	65	66	67
of which:							
USSR	35	38	40	) 69	) 62	) 63	) 64
other CEMA	31	25	23	)	)	)	)
Western Industrial Countries*	26	29	33	22	29	29	29
Developing Countries	5	5		6	6	5	4

\*Including inner-German trade

Sources: Statistical Yearbooks of the GDR, Statistical Yearbooks of the CEMA Countries 1976-1985 (in Russian). The demarkation between socialist countries and CEMA countries deviating as of 1981 has been made compatible with GDR statistics.

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Table 3: Foreign Trade Trend Data up to 1990

	Actual	Planned	Changes in percent	Average Annual Growth Rate in percent (Basis: actual 1985)
Total				
Turnover	793	ca. 952 <sup>1</sup>	20	ca. 2
Export	409	.	.	.
Import	384	.	.	.
Socialist Region				
Turnover	522	ca. 628 <sup>2</sup>	ca. 20	ca. 2
Export	265	342	29 <sup>3</sup>	4
Import	257	ca. 286	ca. 11	1
USSR				
Turnover	303	) 380 <sup>4</sup>	26	ca. 3
Export	-	-	30 <sup>3</sup>	
Import			21	
Rest of CEMA Turnover	197	220	12	1
Nonsocialist Region				
Turnover	270	ca. 324	20	ca. 2
Export	144	.	.	.
Import	126	.	.	.

<sup>1</sup>Estimate based on planned turnover with CEMA of VM 600 billion, making up ca. 63 percent of total foreign trade turnover. <sup>2</sup>Estimated as roughly 2/3 of total 1986-1990 turnover. <sup>3</sup>Party congress data from Willi Stoph. <sup>4</sup>Party congress data from Erich Honecker.

Table 4: Trade with the USSR 1976-1990 (effective prices)

Year	Turnover in billion tr. rubls.	Changes in %	GDR Exports billion tr. rubls.	Changes in %	GDR Imports billion tr. rubls.	Changes in %
1976-80	37,75	78.3	17,81	66.6	19,95	91.5
1981	10,68	18.3	5,15	18.9	5,53	13.6
1982	12,20	14.2	5,78	12.2	6,42	16.1
1983	13,39	9.8	6,60	14.2	6,80	5.9
1984	14,85	10.9	7,37	11.7	7,48	10.0
1985	15,20	2.4	7,55	2.4	7,65	2.3
1981-85	66,32	75.7	32,45	82.2	33,88	69.8
1986 <sup>1</sup>	7,31	- 2.9	3,49	- 8.7	3,82	3.1
1986-90 <sup>2</sup>	82	23	42	29	39	15

<sup>1</sup>January-June      <sup>2</sup>Estimated on basis of GDR data VM 380 billion (deviating from turnover in transfer rubles).

Sources: Statistical Foreign Trade Yearbook of the USSR, Foreign Trade supplements USSR, Moscow.

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Table 5: GDR Foreign Trade with OECD Countries<sup>1</sup> 1976-1985 (effective prices)

Year	Turnover in billion \$	Changes in %	GDR Exports in billion \$	Changes in %	GDR Imports in billion \$ <sup>3</sup>	Changes in %
1976-80	17,07	105.4	7,36	104.8	9,71	105.2
1981	4,67	0.2	2,18	4.0	2,56	- 0.5
1982	4,09	- 12.4	2,38	9.2	1,73	- 32.4
1983	4,40	7.6	2,42	1.7	1,90	14.5
1984	4,12	- 6.4	2,33	- 4.0	1,79	- 9.6
1985	3,79	- 8.0	2,32	- 0.4	1,47	- 17.9
1981-85	21,07	23.4	11,63	58.0	9,44	- 2.8
1986 <sup>2</sup>	2,22	26.9	1,28	17.9	0,94	41.8

<sup>1</sup>Without inner-German trade. <sup>2</sup>January - June. <sup>3</sup>The data were revised for the Americal grain transit shipments, which are not contained in the OECD data.

Sources: OECD Monthly Statistics of Foreign Trade, Eastern Europe Review of Agriculture, published by the U.S. Department of Agriculture



Table 6: Changes in Trade with OECD Countries 1985:1980 1986:1985 in national currencies (effective prices)

Country	GDR Export in %		GDR Import in %		Order of Precedence (Turnover)	
	1985:1980	1986:1985 <sup>1</sup>	1985:1980	1986:1985 <sup>1</sup>	1980	1985
Belgium/Luxemb.	124	- 6	1	90	9	8
Canada	17	34	- 90	- 23	17	17
Denmark	128	- 8	- 43	28	10	9
Finland	24	9	18	- 45	12	15
France	124	9	36	50	2	2
Greece <sup>2</sup>	- 19	- 37	- 31	- 5	14	16
Britain	132	- 12	- 32	24	5	4
Italy <sup>2</sup>	- 32	24	- 27	80	8	7
Japan	18	- 15	5	- 17	11	10
Netherlands	72	- 24	- 27	- 6	6	6
Norway	344	- 30	0	- 34	15	11
Austria	25	- 1	50	- 28	7	5
Sweden	138	- 41	4	2	4	3
Switzerland	96	11	- 13	29	13	14
Spain <sup>2</sup>	14	- 9	291	- 12	16	13
USA	107	- 31	- 85	- 33	3	12
Inner-German	37	- 8	49	- 5	1	1

<sup>1</sup>January - June; <sup>2</sup>Because of the high inflation rate 1985:1980 on dollar basis  
 Sources: OECD - Monthly Statistics of Foreign Trade September 1981 and September 1986, national statistics. Converted to basis of prevailing dollar rate. Sozialistisches Bundesamt Wiesbaden Fachserie 6, Reihe 6

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Table 7: Inner-German Trade<sup>1</sup> 1976-1985 (effective prices)

Year	Turnover in billion VE	Changes in %	GDR Deliveries in billion VE	Changes in %	GDR Imports in billion VE	Changes in %
1976-80	45,17	8.5	21,91	11.8	23,26	6.2
1981	11,63	7.0	6,05	8.4	5,58	5.3
1982	13,02	12.0	6,64	9.7	6,38	14.5
1983	13,83	6.1	6,88	3.6	6,95	8.8
1984	14,15	2.2	7,74	12.4	6,41	- 7.8
1985	15,54	10.0	7,64	- 1.4	7,90	23.4
1981-85	68,17	50.9	34,95	59.5	33,22	42.8
1986 <sup>2</sup>	6,98	- 6.8	3,44	- 8.3	3,54	- 4.9

<sup>1</sup>Including East and West Berlin; <sup>2</sup> January - June  
 Sources: Statistisches Bundesamt Wiesbaden Fachserie 6, Reihe 6

Table 8: Trade with China 1955-1990 (effective prices)

Year	Turnover in billion VM	Share of Total Turnover
1955	0,77	7.5
1956-60	4,35	5.7
1961-65	1,15	1.1
1966-70	1,44	0.9
1971-75	2,25	0.8
1976-80	4,07	0.8
1981	0,55	0.4
1982	0,39	0.3
1983	0,38	0.2
1984	0,54	0.3
1985	0,77	0.4
1981-85	2,62	0.3
1986 <sup>1</sup>	ca. 1,02	ca. 0.5
1986-90 <sup>2</sup>	ca. 6,55	ca. 0.7

<sup>1</sup>According to NEUES DEUTSCHLAND, 22 October 1986, the 1986 trade volume grew by 33 percent over 1985. The 1986 plan had envisaged a 5-percent growth in total foreign trade. <sup>2</sup>In the long-term 1986-1990 trade agreement, they concluded two and a half times the volume of the 1981-1986 agreement, NEUES DEUTSCHLAND, 16 July 1985.

Sources: Statistical Yearbooks of the GDR; shares computed.

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Table 9: Oil Imports from the USSR and Trend in Trade Balances

Year	Volume <sup>1</sup> in million t	Value in billion tr. rbls.	GDR Price tr. rbls. per ton	World Market Price tr. rbl. <sup>3</sup> per ton	Share of total GDR Oil Imports in %	Trade Balances in billion tr. rbls.
1976-80	88,3	4,59	60	83	89	-2,14
1981	19,0	1,74	92	173	84	-0,38
1982	17,7	2,41	136	182	82	-0,64
1983	17,0	2,75	162	162	75	-0,20
1984	17,1	3,12	183	175	73	-0,11
1985	17,1	3,11	182	171	73	-0,10
1981-85	87,9	13,14	151	174	77	-1,43
1986	17,1	ca. 2,94	ca. 172 <sup>4</sup>	95	-	0,34

<sup>1</sup>Statistical Yearbooks of the GDR. <sup>2</sup>Statistical Foreign Trade Yearbooks of the USSR (in Russian) 1976-85. <sup>3</sup>Arab slightly adjusted (annual average price) to the official Ruble-\$ rate of the Soviet State Bank (annual average rate); for 1986: January - June. <sup>4</sup>Computed on basis of 5th annual average of world market prices. For the years 1980 to 1985 for the GDR a price was computed that corresponded to the average of the previous 3 years. Shares computed.

Table 10: Data on the GDR Trade with Crude Oil and Mineral Oil Products  
in million tons 1976-1986

Year	Crude Oil Imports <sup>1</sup>	of which from USSR in Inner- German trade	Exports of Mineral Oil Products <sup>3</sup>	of which deliveries in Inner-German trade
1976-80	99,6	88,3	5,6	11,7
1981	22,7	19,0	1,1	4,0
1982	21,7	17,7	1,1	4,3
1983	22,6	17,0	1,1	5,8
1984	23,2	17,1	1,2	6,6
1985	ca. 22,8	17,1	1,1	5,9
1981-85	113,0	87,9	5,6	26,6
1986 <sup>4</sup>	.	17,1	0,7	.

<sup>1</sup>Imports shown in GDR Statistical Yearbooks. <sup>2</sup>Fachserie 6 - Reihe 6 Statistisches Bundesamt Wiesbaden. <sup>3</sup>Exports shown in the Statistical Yearbooks of CEMA

<sup>4</sup>As to the long-term trade agreement with the USSR, annual volumes delivered remain stable. Inner-German trade: January - August.

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Table 11: The GDR's Hard Currency Debts in billion \$

OECD <sup>1</sup>	1981	1982	1983	1984	1985	1986 <sup>2</sup>
Bank Credits	10,7	9,1	8,6	8,5	10,4	10,8
Credits from Suppliers	1,6	1,6	1,6	1,7	1,6	1,6 <sup>3</sup>
Gross Indebtedness	12,3	10,7	10,2	10,3	12,0	12,4
Assets	- 2,2	-2,0	-3,4	-4,5	-6,5	-6,9
Net Indebtedness	10,1	8,7	6,8	5,8	5,5	5,5

<sup>1</sup>Known Indebtedness (excluding inner-German transactions). <sup>2</sup>As of late June 1986

<sup>3</sup>Estimate

Sources: BIZ semi-annual reports, for 1985 quarterly report October 1986, BIS/OECD Statistics on external indebtedness.

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Table 12: Trade Balance Deficit Accumulation

Inner-German Trade	1981	1982	1983	1984	1985	1986 <sup>1</sup>
Accumulated Deficit in billion VE	3,7	3,7	4,1	3,1	3,5	3,6
billion \$ <sup>2</sup>	(1,6)	(1,6)	(1,6)	(1,1)	(1,2)	(1,6)
Trade with USSR	1981	1982	1983	1984	1985	1986
Accumulated Deficit in billion tr. rbl.	2,3	2,9	3,1	3,2	3,3	3,6
billion \$ <sup>3</sup>	(3,2)	(4,0)	(4,2)	(3,8)	(3,9)	(4,7)

<sup>1</sup>As of late June. <sup>2</sup>Conversion rate: 1 \$ = 1981: 2,26 VE/DM; 1982: 2,43 VE/DM; 1983: 2,55; 1984: 2,05; 1985: 2,94; 1986 (first half: 2,2.

<sup>3</sup>Official banking conversion rate of Soviet State Bank: 1 tr. rbl. = 1981: 1.39 \$; 1982: 1.38 \$; 1983: 1.35 \$; 1984: 1.26 \$; 1985: 1.25 \$; 1986 (first half): 1.30 \$. Foreign Trade Yearbook, Moscow, USSR FOREIGN TRADE, Moscow, German supplement.

# FOOTNOTES

1. Cf. Maria Haendcke-Hoppe, "Ten Years Foreign Economy and Foreign Economic Policy in the GDR," *FS-ANALYSEN*, No 5, 1984, pp 57 ff.
2. Mathematically, these price increases no longer conform to the CEMA price setting mechanism based on world market prices as of the previous 5 years, but to the 3-year averaging practiced already in 1975. Cf. Maria Haendcke-Hoppe, "GDR Foreign Trade under the Auspices of Shrinking West Imports," *DEUTSCHLAND ARCHIV*, No 10, 1983, p 1069; Jochen Bethkenhagen, "Petroleum and Natural Gas in CEMA's Intra-Bloc Trade," *DIW WOCHENBERICHT* 51/52, 1983, pp 630 f.; and Josef M. von Brabant, "World Prices and Price-Formation in Intra CEMA Trade: Selected Empirical Evidence," *OSTEUROPA-WIRTSCHAFT*, No 3, 1985, pp 163 ff.
3. On a detailed analysis of crisis management, cf. Karl Heinz Gross, "Inner-German Economic Relations," "The GDR Economy at the End of the 5-Year Plan Period, Part II," *FS-ANALYSEN*, No 5, 1985, pp 27-48.
4. Since 1976 a deficit of approximately VM 40 billion had accumulated, a good VM 29 billion of it alone in the Western trade including Inner-German trade.
5. In Inner-German Trade by the end of 1985 the deficit had mounted to roughly 3.5 billion in nonconvertible exchange units (cf. Table 12). Unknown is the size of indebtedness to banks not reporting to the Bank for International Settlements in Basel.
6. Trucks -- Planned 12,000 -- Actual 4,315  
Tractors -- 16,000 10,543  
Automobiles -- 160,000 63,273  
  
The shortage in truck deliveries probably was compensated for by the shift from road traffic to tracks in the wake of energy conservation measures.
7. There are no data on the volume of investment participations in the USSR either for the last or for the new 5-year plan period. For the 1976-1980 period, in deviating from the statistically shown barely M 7 billion, one is referring to a volume of M 10 billion. In the 1981-1985 planning period that sum is said to have been vastly exceeded. Cf. Willi Kunz, "Socialist Economic Integration under the Conditions of Comprehensive Intensification," "Abhandlungen der Akademie der Wissenschaften der DDR" W 1/1985. p 24.
8. In the 1976-1980 period, the turnover volume shown in GDR statistics, at VM 177 billion (37.9 billion transfer rubles) pretty well matched the turnover shown in Soviet statistics of 37.8 billion transfer rubles. In the 1980-1985 period, at VM 302.9 billion (64.9 billion transfer rubles) it lay below the Soviet data of 66.3 billion transfer rubles.
9. Cf. "The Primary Energy Consumption in the GDR and Its Structure," *DIW-WOCHENBERICHT* 51-52/1985, pp 575 ff; and "The GDR's Export Potential in the Mineral Oil Sector," "BfGA Analysen und Berichte," No 15, 1984, Bonn 31 August 1984.



10. Computed on the basis of OECD data, distorted, however, by the fluctuations of the dollar rate. In Table 6, on the other hand, the import volumes of 1985 were compared with those of 1980 on the basis of international currencies.
11. Cf. "Consolidation Policy in the GDR's Western Trade in Jeopardy?" DIW-WOCHENBERICHT No 47, 1986, p 604.
12. NEUES DEUTSCHLAND, 19 April 1986.
13. Party congress reference by Honecker and NEUES DEUTSCHLAND, 1 November 1985.
14. Cf. Jochen Peter Winters, "Honecker in China," DEUTSCHLAND ARCHIV No 11, 1986, pp 1137-1139.
15. NEUES DEUTSCHLAND, 14 December 1983.
16. Ibid., 17 December 1985.
17. "Bericht des Zentralkomitees der Sozialistischen Einheitspartei Deutschlands an den XI. Parteitag der SED" [SED Central Committee Report to the 9th SED Congress] East Berlin 1986, p 15.
18. Saudi Arabia easy, ridiculously low price December 1985 per ton 196\$; July 1975, 75\$.
19. Cf. Kurt Erdmann, "Innovation Efforts and Central Planning--the Core Concern of the GDR's Economic System," FS-ANALYSEN No 5, 1986.
20. Cf. Helmut Blessing, Gerhard Grote and Christa Luft: "Foreign Trade and Growth in the Socialist Economy at Comprehensive Intensification," WIRTSCHAFTSWISSENSCHAFT, No 4, 1986, p 554.
21. Cf. Doris Cornelsen's contribution in the present issue of this publication, "Balance of the GDR Economy," p 33.
22. Cf. Fritz Homann, "On the Future of Inner-German Trade," DEUTSCHLAND ARCHIV, No 10, 1986, p 1092.
23. Cf. Laszlo Csaba, "Problems of Intra-CEMA Cooperation after the Moscow Summit," "Berichte des Bundesinstituts fuer ostwissenschaftliche und internationale Studien," No 34, 1986.
24. NEUES DEUTSCHLAND, 19 December 1985.
25. Radio Warsaw, 6 November 1986, quote from BPA-Ost (Bundespresseamt Ostinformationen, 7 November 1986.
26. DPA 9 November 1986, quote from BPA-Ost, 10 November 1986.
27. DPA 4 November 1986, quote from BPA-Ost, 5 November 1986.

28. Interview for Radio Prague, 5 November 1986, quote from BPA-Ost, 6 November 1986.
29. AFP, 5 November 1986, quote from BPA-Ost, 6 November 1986.
30. Interview for Radio Prague, op. cit.,

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## OFFICIAL STATISTICS PROVIDE 1986 YEAR-END ECONOMIC ASSESSMENT

West Berlin DIW WOCHENBERICHT in German Vol 54 No 5/87, 29 Jan 87 pp 57-63

[Text] On the Situation of the GDR Economy at the Turn of the Year 1986/87

The 1986 national economic plan and the report on its implementation by the Central State Administration for Statistics<sup>1</sup> reveal the following development of the most important parameters (growth over previous year in percent):

	1986	
	Planned	Actualized
Produced national income	4.4	4.3
Industrial output		
Economy on the whole	3.8	4.3
the industrial ministries' sector	4.3	4.3
Net output (industrial ministries' sector)	8.5	8.5
Retail trade turnover	4.0	4.1
Investments	0.8	5
Foreign trade turnover	5.0	1

On the whole, the GDR thus achieved a remarkable growth in 1986 and met its production targets. The use of the national income does however not conform to the leads. The investments were much higher than planned, and the foreign trade turnover was lower.

In commenting on the statistical results, the Central State Administration proceeds in a peculiar manner: the report announces only successes. There is not the slightest reference to any problems. Everything was "stable, dynamic, effective, efficient, impressive." Yet even the statistical average of the development indicates that along with the various top results mentioned there must have been still others, less impressive ones. This kind of presentation, so remote from reality, vitiates the whole report.

#### The Net Output Parameter

The net output parameter predominates over the portrayal of production. Whereas industrial output--a gross figure--increased by 4.3 percent, net output did so by 8.5 percent. Industrial labor productivity is shown only on the basis of net output in the plan fulfillment report and so has correspondingly high growth rates.

Net output was introduced in 1984 as one of the chief parameters for performance rating. That was caused by the obvious shortcomings of the parameter of industrial commodity production. It facilitated the multiple use of raw materials and resources because thereby the value--in reality often only the costs--of the end product increased and plan fulfillment was relieved. By going over to net output one wanted to eliminate the "bloated cooperation inside and outside of combines" and back the strategy of economizing. The other chief parameters for performance rating are net profit, products and services for the population, and export. Industrial commodity production has been replaced as a chief parameter. About net profit, consumer goods production, and export the plan fulfillment reports say nothing. Net output has thus occupied a top spot in reporting. Its being set down without commentary suggests that the GDR had growth rates in production and labor productivity of an average of more than 8 percent (in some cases, even more than 20 percent). That is false. Practical and methodological problems in establishing them in the GDR greatly curtail their strength of evidence.

Net output in the GDR is established by the indirect method. It is computed as the difference between industrial and non-industrial output at industrial prices on the one hand (=finished production plus/minus inventory changes in unfinished products) and production consumption, on the other hand (=write-off and consumption of material and productive services).<sup>2</sup> Net output is the newly created value. It essentially consists of wages, bonuses, other labor reimbursements, taxes, interests, insurance contributions, dues of various kinds, and profit. Price influences are eliminated in that gross output and production consumption are rated at comparable prices.

Obviously, considerable practical problems arise, for one thing, in establishing net output. Monthly accounts are to be settled on the first working day of the subsequent month. Data on the finished products and the inventory changes in unfinished products must thus be fast recallable, and so must be the material consumption and the consumption of productive services. All products must be rated at current prices and also at the prices of the year before. That makes high demands on industrial accountancy, and it must give a person pause that still today the GDR is raising the demand for "raising the level of socialist industrial management" and for "more expert cost accounting." What with the great variety of product and material positions and the frequent industrial price changes in recent years, the data on comparable prices are likely as a rule to yield merely to approximate computations.<sup>3</sup>

Even in the case of well developed accountancy, however, the net output parameter has its tricks. Its evidentiary capacity is significantly affected by evaluation problems. The critical point lies in evaluating new products. In conformity with the calculation guideline in effect since 1984, prices for new products in the GDR are set on a cost basis; for incentives there are profit bonuses. As the "renewal rate of production" has been preassigned as a plan parameter since 1983, the number and value of products put as new or further developments into production, or at least declared to be such, rise constantly. In evaluating these new products at "comparable" prices the point is that only the "acknowledged alteration of the use value"<sup>4</sup> may be accounted for as real development. So even objectively they are then confronted with an unsolvable problem. There is no method that would allow incorporating exactly new and



further developed products in industrial production. Despite detailed legal regulations, the enterprises here enjoy much elbow room for their own discretion in determining the development of use properties.

Because of these evaluation problems first they make a bit too much of the gross output development; and net output is affected by that still more. Mathematically that plainly follows from the fact that the net output is smaller than the gross output, so that an absolutely equal price effect makes more of an impact there. As to the ratios in GDR industry, where the "net quota" comes to circa 40 percent, the price effect based on net output is 2.5 times as high as on the gross output base.

One must add to this that the net output parameter reacts most sensitively to assortment alterations.<sup>5</sup> The profit and wage intensity of the various products also differs in the GDR. If assortments shift toward wage or profit-intensive products, it has a very strong impact on net output.

While the weak spots of the net output parameter are hardly ever publicly discussed in the GDR, in Soviet literature critical comments are found.<sup>6</sup> There one points in particular to how difficult it is to establish production consumption. When one uses cheaper material at the cost of quality, keeping prices unchanged in the end product, net output can be boosted. This ignoring of shifts in assortments thus is crucial for the very high figures in GDR material savings compared with other CEMA countries. These pricing problems are further underlined by the report that in the GDR between 1981 and 1985 new industrial prices were set for 85 percent of production; on the average price hikes came to from 15 to 20 percent.

According to all this, net output may be suitable as a complementary but not the sole performance parameter; as an indicator for production development, in any case, it is unsuitable.

#### Output according to Sectors

In 1986, the GDR accomplished its total output by keeping labor approximately unchanged. The produced national income rose by 4.3 percent, economic labor productivity, by 4.5 percent. Given the age structure of the population, the number of manpower is hardly going to change at all throughout the entire 5-year plan period.

Also for industry results demonstrate a constant labor figure. Industrial commodity output rose by 4.3 percent. For the various industrial sectors, reporting confined itself to the trend in net output which--as shown--is an unsuitable indicator for the actually achieved performance. The monthly reporting by the Economic Commission for Europe<sup>7</sup> on industrial commodity production has come up only to the first 9 months of 1986 and shows for that time frame an ample 3 percent. It ranges from 5.7 percent (electrical engineering, electronics, apparatus construction) down to 1.4 percent (textile industry).

The construction output--production and construction materials--rose by 3 percent. As the output of construction materials is given at a growth of barely

3 percent, a similar increase has been accomplished for construction production alone. Much is made of the further trimming of specific material consumption. Much of the accomplishments lay in the modernization and rehabilitation of extant buildings. Housing construction had fine results, clearly in excess of the plan. A total of 215,700 apartments were completed, 6,500 more than planned. They continued more of the modernization and maintenance of what there is. Of the completed apartments, nearly 45 percent went to modernizations (1985: 43 %).

For transportation there seem to be some problems. Labor shortage on the railroad generally, and in the repair sector in particular, made transportation again a frequent bottleneck after the forcible conversion of freight transports to railroad, which interfered with production. The plan fulfillment report again confines itself here to reporting successes. The railway freight volume declined slightly throughout 1986, but what they are reporting is a 3-percent increase in the last quarter.

Agriculture did very well. Grain had its third consecutive record harvest; the yield came to 11.7 million tons. For potatoes and feed cultures the outcome was less good because of the big drought. The effects on feed supplies were mitigated, however, through intermediate crop cultivation. Gross soil production (total yield in crop products) in toto was slightly below last year's results; the plan, contemplating more of a decline, could thereby be surpassed. Cattle stocks being stable, livestock market production increased. There are reports that livestock feed consumption fell per unit of livestock production and breeding results were improved.

#### Domestic Use

Unlike the plan's anticipations, investment activity in 1986 went up notably in the GDR. The plan had contemplated investments at M 63,1 billion--at 1985 prices. That was a 0.8-percent increase over 1985 (M 62,6 billion at 1985 prices). But what one got in 1986 was M 70 billion (at effective prices). The real growth is given as 5 percent. This means that the prices for investment goods rose by roughly 6 percent in 1986, a rate that could be derived already from the results of the first half year. The plan fulfillment report says nothing about the cause for the deviation from planning. It is plausible that during the strong curbs on investment activity in the first half of the 1980's a considerable need to catch up had arisen. Besides, it is not unusual that at the start of a new 5-year plan investments initially rise much. Evidently, in spite of strict investment balancing, there are still reserves for plan implementation that make it possible to handle additional projects.

In the development of income and private consumption the plan figures also were surpassed--even if not equally much so. The net monetary income of the population rose by 4.5 percent (the plan had 4 percent); retail trade turnover, by 4.1 percent (the plan again had 4 percent). Thus, instead of the planned parallel development between income and retail trade turnover, income was what increased more. It came mainly out of the living wages, the growth of which must be set at more than 5 percent. But that evidently was not enough to translate the higher income also into purchases. Still, there were limits to the differential between increased incomes and the shopping for goods. The saving quota, still of 5 percent in 1985, may have risen slightly-- by 0.5 %.

On the whole, public provisions were orderly enough. About price hikes in retail trade there again is no information. A point is made of the stable consumer prices for basic necessities. For price hikes for the other consumer goods, the chances granted by the system are, however, becoming larger always. Margins for that are provided by the greater availability of newly or further developed products, normally induced by profit bonuses. That holds true especially for the luxury boutiques and delicatessen, the turnover of which was increased by 10 and 8 percent respectively.

#### Foreign Trade Aspects

Reading the plan fulfillment report automatically creates the impression of noteworthy foreign trade successes because of the frequently affirmed "consolidation of the GDR's export capacity" and the "high dynamics in trade relations with the Soviet Union." The scarce figures in the plan fulfillment report (turnover with the socialist economic region, with the Soviet Union, export surplus over the non-socialist economic region) together with data available from partner countries, however, demonstrate the trade virtually stagnated. As far as one can make out, exports were slightly retrogressive, imports rose somewhat, turnover (import+export) increased by a good 1 percent. The 1986 annual plan had contemplated a 5-percent turnover growth.

Most conspicuous is the development of the trade with the Soviet Union. The turnover result according to the plan fulfillment report (Valuta Mark 71 billion) amounts to an increase of a good 1 percent only. Soviet statistics show a decline in GDR exports and an increase in imports in the first 9 months. If that picture stayed the same for the whole year of 1986, an import surplus of VM 4 billion would have been generated. That would contradict the planning and the CEMA accords. Since 1983 (37th CEMA session) there has been in effect the Soviet Union's demand on the smaller CEMA countries to pay for Soviet raw material deliveries by commodity exports. Trimming the annual deficit in commodity trading and producing surplus to reduce the accumulating debts therefore seemed to be among the major tasks in GDR foreign trade. Despite the worsening of the terms of trade in the first half of the 1980's, the GDR had much success with it; the annual deficit did drop till 1985. The record deficit discovered now would have nullified all these efforts.

Less surprising is the development resulting for the foreign trade with the non-socialist countries. In Inner-German trade FRG imports and exports declined--mainly because of the price drop in mineral oil and mineral oil products--and the GDR deficit increased somewhat. In the rest of the trade with the West (OECD countries without FRG) GDR exports dropped (again in connection with the oil price trend) and GDR imports increased further. There is no information on GDR trade with the developing countries from the partner countries. Assuming the same import/export volume as in 1985, there will then be a decline in exports and a slight increase in imports in the trade with the non-socialist countries on the whole. The surplus in commodity trading, VM 4.2 billion last year, had shrunk, according to GDR data, to VM 1.5 billion.

## 1986 and 1987 within the Scope of 5-Year Planning

The 1986 national economic plan was passed before the medium-range 1986-1990 planning saw the light of publicity. What economic management thought became known, in the form of the directive, not until the 11th SED Congress in April 1986. Late in November 1986 the People's Chamber ratified the 5-year plan law,<sup>8</sup> at a time, in other words, when the first year of its running had nearly ended.

Comparing the directive with the 5-year plan, one finds but few deviations. The directive lists ranges for most growth rates, in the plan the more specified rates mostly lie in the middle of the ranges. That does not apply, however, to the so-called key technologies, where the plan chose the upper limit of development as pronounced in the directive.

According to the definitive planning, the 1990 national income is supposed to be by 25 percent higher than 1985; that would correspond to an annual growth of 4.6 percent. The last 5-year plan reached an average of 4.3 percent. That average is much affected by the weakened growth in 1982; in the last 3 years the increase was higher. In principle then, the rate now set down is no acceleration but more or less a continuation of most recent developments. Estimates for industrial production are rather cautious, but considerable arrangements are made for energy and material savings.

On net monetary income and retail trade turnover the plan and directive largely agree. Both are to rise in 1990 by 21.7 percent above 1985, which means an annual growth of roughly 4 percent. The introduction of new products for the higher demands and the anticipated turnover boost of the specialty stores and delicatessen make price hikes likely. The real consumption increase should therefore clearly be lower than the consumer expenditures.

While the plan and the directive agree on consumption, investments were cut back. The directive had talked about M 346 billion, the plan talks about M 341 billion. Even the higher one of the amounts means only an annual growth of 3.4 percent; from the reduced investments sum one gets barely 3 percent.

Thus the 5-year plan a bit more still than the directive expresses a discrepancy between overall economic growth (4.6 percent) and the growth of consumption and investments. Higher export increases are likely to be contemplated. That conforms with the principle that the growth of export production should be higher than the growth rate for industrial output.<sup>9</sup>

The foreign trade assessment contains a conspicuous change in the plan from the directive. The directive affirms repeatedly that what matters is further to strengthen the economic and political unassailability of the GDR, for which "between 1986 and 1990 also an important export surplus is necessary." That remark is absent in the 5-year plan. Between the formulation of the directive and the plan there came, to be sure, the strong oil price drop, cutting into GDR profits in its Western trade and making export surplus harder to achieve.

Comparing the 5-year plan with its first two annual plans shows a uniform line (annual growth in percent):



	5-year plan	annual plan	
		1986	1987
Produced national income	4.6	4.4	4.5
Industrial commodity production			
Economy at large	3.9	3.8	3.8
Industrial ministries	4.2	4.3	4.6
Construction production	3.4	3.2	3.3

The big and ambitious programs for the "key technologies" are not expressed in these leads at all, neither in the 5-year plan goals, which look more like continuing the growth as up to now, nor in the "annual disks," in which the speed-up is slight. The new technologies with their enormous growth targets are but relatively small segments of the total economy; of their having an impact on other sectors no miracles must be expected for the foreseeable future.

Of much greater weight are the traditional sectors in the GDR economy where standard products are made in an inefficient production organization at obsolete plants. Such enterprises, moreover, suffer from the enormous concentration of means on the key technologies without being able to profit from their data. The changes scheduled in the new 5-year plan are not likely to improve that situation much.

The new measures to "improve management, planning and effective accountancy" embrace--as far as it has become known<sup>10</sup>--the following points:

- Setting up a new investment fund in the combines,
- granting interest reductions for certain investment projects, and
- rewarding material saving: A certain percentage of the value of funds "returned to the state" is credited to the combines discretionary funds (for employee bonuses).

That essentially just expands measures already in existence. Worth mentioning is only the new investment fund. Parts of amortizations and net profit flow into it. The shares are assigned as normative leads and thus depend on the profit that was made. The funds may be used for modernizing the production plants and for facilities that serve to improve the working and living conditions. Investments in in-house rationalization means construction and other investments also can be financed with it; the decisions made on it, however, are central decisions. These new rules thus broaden the combines' elbow room only partially and primarily promote the extension of "in-house production."

Measures for a basic change in the economic system evidently are not in sight. Economic management is holding on to centrally planning and bindingly preassigning all decisive processes. The combines are being turned into autarkic economic units embracing the entire production process from the raw material to sales. All important ancillary supplies and most of the investments are to come out of their own sector. That contradicts the assured understanding in economics that higher productivity effects come from more division of labor and specialization. In the GDR, for all that, one seems to have such difficulties with supra-enterprise cooperation and contractual relations that the autarky of large economic units becomes preferable.

**Industrial Commodity Production<sup>1</sup>**  
Growth over Previous Year in %

Industrial Sector	1976- 1980 <sup>2</sup>	1981 1985 <sup>2</sup>	January-August		
			1984	1985	1986
Energy & Fuel Industry	4.8	3.7	5.8	2.7	2.0
Chemical Industry	4.8	3.8	3.5	2.7	2.0
Metallurgy	4.0	3.8	2.3	2.7	3.0
Construction Materials	2.3	0.9	2.6	0.4	3.0
Water Management	3.5	1.6	-0.1	0.0	1.7
Machine and Vehicle Construction	5.8	4.6	4.1	4.3	4.1
Electrical Engineering, Electronics and Equipment Construction	8.9	9.0	8.5	10.8	5.7
Light Industry	4.3	3.2	3.7	3.5	2.5
Textile Industry	3.8	3.0	3.6	1.0	1.4
Foodstuffs Industry	2.7	2.2	5.2	2.0	2.7
<u>Total Industry</u>	4.7	4.2	4.5	3.2	3.4

<sup>1</sup>Computed from monthly index data; the actual figures, i.e. by revising the official original data with allowances to working day adjustments.

<sup>2</sup>Average annual growth

Sources: Statistical indicators of short term economic changes in ECE countries.  
Economic Commission for Europe, Geneva. -- DIW computations.

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**GDR Foreign Trade 1985/86**

	Export			Import		Turnover			Balance		
	1985	1986	Changes	1985	1986	Change	1985	1986	Change	1985	1986
	VM billion		1986/85	VM		1986/85	VM		1986/	VM billion	
			in %	billion		in %	billion		85 in %		
All Countries	93,5	91,5	-2.1	86,7	90,8	4.7	180,2	182,3	1.2	6,8	0,7
Socialist											
Countries	60,8	61,2	0.6	58,2	62,0	6.4	119,0	123,1	3.4	2,6	-0,8
USSR	34,8	33,3	-4.2	35,2	37,4	6.3	69,9	70,7	1.1	-0,5	-4,1
Non-socialist											
Countries	32,7	30,4	-7.1	28,5	28,8	1.2	61,2	59,2	-3.2	4,2	1,5

Sources: DIW estimates from data in 1986 GDR Statistical Yearbook and from the Plan Fulfillment Report for 1986 (NEUES DEUTSCHLAND, 19 January 1987); furthermore data from CEMA partner countries for January - September 1986 and data from OECD partner countries for an average 8 months in 1986.

GDR Economic Development Indicators  
Growth over Previous Year in %

	1981-1985 <sup>1</sup>		1986-1990 <sup>1</sup>		1986		1987
	Plan	Actual	Directive	Plan	Plan	Actual <sup>2</sup>	Plan
Produced National Income	5.1	4.3	4.4/4.7	4.6	4.4	4.3	4.5
Primary Energy Consumption .		0.2	1.0	.	.	.	.
of which: lignite	.	3.1	.	.	.	.	.
Industry							
Commodity Production <sup>3</sup>	5.1	4.2	3.7/4.1	3.9	3.8	4.3	3.8
Industrial Ministries							
Commodity Production <sup>3</sup>	5.5	4.8	4.1/4.4	4.2	4.3	4.3	4.6
Net Production <sup>3</sup>	.	7.0	8.3/8.6	8.4	8.5	8.5	9.0
Labor Productivity							
(Commodity Production)	5.2	4.0	4.1/4.4	.	.	.	.
(Net Production)	.	6.3	8.3/8.6	8.4	8.1	8.8	8.6
Construction							
Production, centr. <sup>3&amp;4</sup>	4.2	3.4	3.4/3.7	3.4	3.2	3.0	3.3
Compl. Apartments <sup>5</sup> )	188,0	197,8	212,8	212,8	209,2	215,7	210,1 ) in
new ones )	120,0	122,6	118,6	118,6	118,6	119,3	116,8 ) 1,000
modernized )	68,0	75,2	94,2	94,2	90,6	96,4	93,3 )
Agriculture							
Gross Soil Output <sup>6&amp;7</sup>	2.1/2.3	2.4	2.0/2.7	2.2	-5.9	-3.5	-1.2
of which: grain har-							
vest in mill tons <sup>8</sup>	10,4	10,4	11,8/12	11,9	10,9	11,7	11,2
Livestock Market							
Production <sup>7&amp;9</sup>	0,9	1,1	2,0/2,3	2,1	1,5	2,9	-0,7
Domestic Transport <sup>10</sup>							
Freight Volume	.	-3.6	.	.	.	-1	.
of which: railroad	.	1.9	.	.	.	-0.5	.
navigation	.	2.3	6.9	6.9	.	6.3	.
highway	.	-8.5	.	.	.	-1.5	.
Freight Performance	1.2/1.6	-2.2	.	.	.	.	.
of which: railroad	.	-0.2	.	.	1.6	.	2.5
navigation	.	4.0	.	.	9.2	12.5	11.7
highway	.	-8.5	.	.	.	.	.
Electrification of							
railroad treks <sup>5</sup> in km	140/150	166	300	300	296	298	.
Retail trade turnover <sup>11</sup>	3.7	2.1	4.0	4.0	4.0	4.1	4.0
of which: foods and							
specialty foods	3.7	2.5	2.7	2.7	.	2.7	.
Industrial goods	3.7	1.7	5.3	5.3	.	6.0	.
Foreign Trade turnover <sup>11&amp;12</sup>	.	9.4	.	.	5.0	1.2	6.0
of which: import	.	6.6	.	.	.	4.7	.
export	.	12.2	.	.	.	-2.1	.
balance in billion VM	.	5.2	.	.	.	0.7	.
Net monetary income of							
population	3.7	3.0	3.9/4.1	4.0	4.0	4.5	4.0
Investments, total <sup>13</sup>	-2.1	-0.9	3.4	2.9	0.8	5	-2.3

<sup>1</sup>Average annual growth. <sup>2</sup>Provisional data, in part estimates. <sup>3</sup>Actual results

1981-1985 computed out of index data. <sup>4</sup>Actual figures 1986; Construction production. <sup>5</sup>Five-year data; average annual performance. <sup>6</sup>Total of crop production accounted for in grain units (GE's) according to the GDR's grain (GE) key. Plan and actual figures with reference to the average hectare yields given by the GDR. <sup>7</sup>Five-year plan figures: average annual growth proceeding from the average of the previous 5 years and with a view to the planned volume for the last year of the new 5-year plan period. <sup>8</sup>Five-year plan figures: Grain harvest sought in the last year. <sup>9</sup>Total of state production in fatstock, milk, eggs and wool; evaluated in GE. <sup>10</sup>Not including ocean navigation and civil aviation. <sup>11</sup>Prevailing prices. <sup>12</sup>Including Inner-German trade; results for 1986; preliminary estimate. <sup>13</sup>Without general repairs; at constant prices.

Sources: Laws on the 5-year plans (GBL of the GDR Part I, 1981, No 35 and NEUES DEUTSCHLAND, 28 November 1986, pp 11 ff.) -- 11th SED Congress Directive for the 5-Year Plan for the GDR's Economic Development 1986-1990 (NEUES DEUTSCHLAND, 23 April 1986, pp 3 ff.) -- Laws on the 1986 and 1987 national economic plans (GBL of the GDR, Part I, 1985, No 30, and NEUES DEUTSCHLAND, 28 November 1986, pp 14 ff.) -- Plan Fulfillment Reports (the last one for 1986: NEUES DEUTSCHLAND, 19 January 1987) -- Statistical Yearbooks of the GDR. -- Statistical Indicators of Short Term Economic Changes in ECE Countries, Geneva. -- DIW computations and estimates.

#### FOOTNOTES

1. Cf. NEUES DEUTSCHLAND, 19 January 1987, pp 3 ff.
2. GDR Statistical Yearbook. Preface to the Industry Chapter.
3. Gerhard Heske, "Messung des Produktionswachstums," East Berlin, 1984, p 74.
4. Ibid., p 113.
5. The lower the net quota in the gross product, the more of a difference do the material savings make in increasing the net production. Cf. Angela Scherzinger, ed., "Further Development of the Economic Mechanism in the GDR," WOCHENBERICHT DES DIW, No 41, 1983, pp 509 ff.
6. Vg. V. I. Smirnov, "The Parameter for Actual Net Production in the GDR," EKO No 10, 1986, p 195 (in Russian).
7. "Statistical Indicators of Short Term Economic Changes in ECE Countries," Economic Commission for Europe, Geneva.
8. "Law on the Five-Year Plan for the GDR's Economic Development 1986-1990, 27 November 1986," GBL of the GDR, Part I, 1986, pp 449 ff.
9. Cf. G. A. Egiatsaryan and E. Knaute, eds., "Strengthening the Effect of the Economic Mechanism in Boosting the Efficiency of Socialist Industrial Production," Moscow, 1985, p 21. (in Russian).
10. Guenter Mittag, "Management, Planning and Effective Accountancy in the GDR Economy," EINHEIT, No 10, 1986, pp 876 ff.



## RESTRICTION, FACILITATION OF INVESTMENTS ARGUED

Budapest FIGYELŐ in Hungarian 15 Jan 87 p 3

[Article by Peter Kardos]

[Text] The investment process became more lively in 1986; the number of credit applications has increased, more investments had been initiated than in previous years; the number of completed investment transactions has exceeded that of the previous year. Using 1984 constant prices, between 1981 and 1985 investments by the socialist sector dropped from an annual 217 milliard [217 billion] forints to 184.7 milliard [184.7 billion] forints. Preliminary data for 1986 indicate that similar investments amounted to 183.6 milliard [183.6 billion] forints. (The planned level of investments for 1987 is between 185.4 milliard [185.4 billion] forints and 188.6 milliard [188.6 billion] forints.)

Last year the actual internal structure of investments by the socialist sector was different from what had been planned.

Fulfillment of state investments has fallen back, while enterprise investments significantly exceeded levels projected in the annual plan.

The reduced level of state investment fulfillments is not unusual at the beginning of a medium range plan, just as it is not unusual that enterprise investments exceed their projected fulfillment levels. Related concerns stem from the following:

-- Aside from the fact that investments had reached the planned investment levels, an increase in production has significantly lagged behind the planned levels of production. As a result, resources to increase investments had not been created, and the balance of production and domestic consumption has further deteriorated;

-- Vigorous investment activities unsupported by domestic resources may be fraught with the danger of a long-term upswing in investments that cannot be financed, and thus with the evolution of a new cycle.

-- Even though it appears as favorable that for the first time in many years the investment share of the processing and food industries has increased somewhat, investment practice did not become sufficiently differentiated in these fields either. There were hardly any reductions--as a result the development of profitable activities has shown a smaller expansion than what would have been necessary and possible.

A horizontal flow of capital has not yet evolved. Accordingly, for the time being, increasing investments did not improve the income producing capability of production.

If one considers last year's leading economic processes from the viewpoint of investment policies, the following alternatives emerge. First alternative: In addition to achieving a short term, but significant improvement in the foreign trade balance, the volume of investments could be sharply reduced. In this event, the developmental goals established within the the seventh 5-year plan would have to be scrapped. Second alternative: In contrast, if we were to modestly increase the volume of investments we would strengthen selectivity and would enhance the possibilities of long-term evolution.

Both alternatives carry risks. Under conditions of the first alternative, the rate of growth of the fixed asset inventory and of the economy becomes moderate already in the short-run. Under the second alternative the achievement of the main objectives of the developmental policy described in the seventh 5-year plan may be continued, provided that investment and other economic activities show an early, significant improvement. If such improvement does not occur, the second alternative would require forceful restrictive measures, particularly in the interest of establishing a foreign trade balance. From among the two alternatives, the 1987 plans are closer to the second alternative, considering the fact that the plan views the establishment of productive conditions as a priority so as to achieve a long-term foreign trade balance.

Accordingly, in spite of a deteriorated foreign trade balance, according to the 1987 people's economy plan investments by the socialist sector may approach the levels projected in the medium-range plan. To a large degree, investments must serve the interest of expanding production and to improve the competitive edge in foreign markets. In this respect the structure of investments differs from the structure described in the medium-range plan. Enterprise investments exceed the levels projected for 1987 in the 5-year plan, state investments, however, must be planned at correspondingly lower levels.

The fundamental characteristic of the 1987 plan is that within the industrial sector the developmental rate for the processing industry is increasing. This creates more favorable conditions for the processing industry to contribute at an increasing rate to the Gross Domestic Production [GDP].

For the time being, developmental opportunities for the infra-structure will be moderate, but in specific areas, such as long distance communications and water resource management, the amounts of earmarked funds may be increased and the objectives of the plan may be achieved. Within the overall decreasing

volume of non-productive investments developmental funds to improve scientific research, residential apartment construction and high school education will enjoy priorities. Accordingly, the "victims" of the structural change are the infra-structure, and within that, primarily the general areas of the non-productive infrastructure.

The number of central, major investments continues to decline, pursuant to the objectives of the seventh 5-year plan. There will be no new central, major investments; only the absolute necessary minimum may be used for purposes of preparation, planning and for the protection of assets. The reconstruction of Ferihegy Airport is coming to a conclusion, and the fourth unit of the nuclear power plant at Paks will begin producing electricity.

Among the specially earmarked groups, investments for purposes of long distance communications may be increased significantly-by 30 percent. For purposes of water resource management the possible increase is close to 20 percent-both percentage increases to be viewed at current prices. With respect to other select groups the possible increase generally corresponds with the inflation rate.

DISTRIBUTION OF SOCIALIST SECTOR INVESTMENTS PER INDUSTRY CATEGORY  
(current prices in percentages)

Industry Categories	1985	1986 Plan	1987 Plan
Total industry	33.5	33.7	33.5
Energetics:	16.8	16.2	15.3
Processing industry:	14.4	15.4	16.6
Food economy	17.7	19.3	19.6
Construction	2.9	2.9	2.6
Productive infrastructure	26.5	25.1	25.8
Mail and Communication	2.9	3.0	4.3
Water resource management	7.3	7.2	7.2
Non-productive infrastructure	19.4	19.0	18.5
TOTALS:	100.0	100.0	100.0

Investments by organizations subject to budgetary constraints [non-productive infrastructure = government] essentially remain unchanged at the 1986 levels. Using comparable prices, however, less money will be available this year than last year. Only a few areas enjoy increases: scientific education, and technical development are two of these areas. The authorized investments are characterized primarily by the completion of works in progress, and by the procurement of instruments. Significant developmental work involving construction may be undertaken only with the permission of the president of State Planning Commission [ATB]. Funds earmarked for these purposes also have been reduced, as compared to the previous year's levels.

As compared to 1986, the amounts authorized for investment by councils has been decreased in 1987. Compared to the 5-year plan calculations, the "global" possibilities in this area have been sharply reduced. For this

reason the concentration of these resources on top priority items has gained increased significance.

According to calculations contained in the plan, the amount of investment funds subject to the discretion of enterprises may be around 129-130 milliard [129-130 billion] forints. This amount represents an increase of five to six percent over the 1986 levels. In this area the investments during the first two years will exceed investment levels contemplated during the five year span of the plan. Within the sphere of enterprise investments there is a need for a substantially greater degree of differentiation than before. Investments serving the economical increase of exports and higher production efficiency levels may be increased. In this area there are opportunities for credit and for subsidies also.

Within the material versus technical composition of investments construction funds are being reduced somewhat, while funds earmarked for the procurement of machinery is on the increase. Regarding the latter, funds allocated for machinery and installations payable in convertible currencies amount to only a little more than in 1986; the increase is tied mainly to investments financed (jointly) by the World Bank, and to export expansion purposes. Accordingly, the possibility of enterprise investments for other importing purposes have decreased.

The direction of the change becomes evident already from a sketchy presentation of the plan: within the overall concept of development, investments serving the modernization of the production structure prevail over other developmental purposes.

We must address the issue of those concerns and tensions that had characterized the year 1986 also, the ones which I have outlined at the beginning of this article. Due consideration of these concerns and tensions is important because the effects of the investment process appear both in the medium- and the long-term, and because it is during the same time span that these effects can be successfully influenced and controlled.

Doubtless, in 1987 too, investment needs will exceed the possibilities in the available resources. Our concerns stem primarily from the inappropriate structure of investments. On the one hand, still too many resources are tied down for energetics-developmental work needed to assure a secure supply of energy--a consequence of an excessively energy-consuming production structure.

On the other hand, appropriate selectivity does not prevail even within the micro-structure, even though we know that the replacement and modernization of fixed assets within an unchanged structure does not permit the desired increase in income producing capacity. For this reason, a greater degree of differentiation must prevail in the field of investments. Only part of the conditions for such differentiation have been accomplished, accordingly, related efforts must be pursued more consistently, because by all means must we avoid a general upswing in investments in the absence of selectivity.

We must establish, alternatively, we must continue to pursue those governmental activities which strengthen the concern for assets, and through



this concern, the fulfillment of a horizontal--inter-enterprise--flow of means. Paradoxically, this has become the indispensable condition of vertical capital flow also, because in its absence, state developmental actions must resort to the coercion of structural changes by means of increased centralization and redistribution of developmental resources. This would diminish the commitment of enterprises.

At the same time, a greater degree of differentiation supposedly also increased enterprise needs for subsidies, as witnessed during previous years. The 1987 plan includes a definition of opportunities for subsidies in the most important areas. First of all, we intend to support development that increases and improves our export capabilities. The aim is to reduce the specific duration of subsidies for low efficiency activities. "Local" conflicts may sharpen as a result. Central management, at the same time, must resist demands for subsidies. It must do so from the viewpoint of the societal interest.

This is the most important condition from the investment viewpoint, and at the same time the most difficult condition of medium-range evolution. This is so, because in everyday practice this is the area where we have made the least progress. We may redefine this as follows: those who hold the purse strings must make increasingly independent decisions as to the purposes for which they wish to expend their funds, but at the same time, they must also face the financial consequences of their actions.

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## PROSPECTS OF MONETARY REGULATION EVALUATED

Budapest FIGYELO in Hungarian 22 Jan 87 p 6

[Article by Laszlo Sandor: "Credit: Commercial or Bureacratic Basis"]

[Text] In contrast to the fiscal and administrative economic regulatory approach utilized before, our expectation from the transition to monetary regulatory concepts is that the balance between available resources and resource utilization will be realized through the enforcement of actual reimbursements. The reorganization of the banking system also serves this purpose. The success of this endeavour, however hinges upon the environment in which the monetary regulatory system is established and upon the definition of our expectations.

In order to understand these relationships, let us recall the events of the late 70's. The Hungarian National Bank [the Bank] faced a rather difficult decision in 1977, when economic growth was to be accelerated, and in 1978, when enterprises were in the process of accumulating cash reserves. The Bank had a choice of observing the classic rules of credit by not granting credit to "slow-moving" reserves, thus counter-acting that aspect of economic policy which envisioned the acceleration of economic growth. Alternatively, the Bank had the choice of accepting the reduction in the speed of cash flow, and of introducing surplus funds, thus enabling the plans that called for growth. In reality, however, the decision was not that difficult.

#### The Bank's Dilemma

By consistently adhering to the classic rules of credit-worthiness, based on past experiences, the Bank could have counted on two consequences. First, that enterprises would not have abandoned their planned purchasing projects, thus increasing the number and amount of unsettled debts, and the size of the waiting list for credits. Had this situation reached critical dimensions, e.g. had it caused disturbances with respect to the payment of taxes, sooner or later the Bank would have had to settle the finances of enterprise debt concentrations on the waiting list, even though such action would have been contrary to the principles of credit-worthiness. This is so, because the government views the Bank as the enforcer of "credit repayment discipline".

Alternatively, the enterprises could have limited their purchases by virtue of tight credit. In this way, the enterprises would have been better off blaming tight credit for their failure of making necessary purchases, rather than to explain their failure to deliver on planned efficiency improvements. Under these circumstances, however, the Bank would have to prove that the rejected credit applications did not conform to established criteria for credit-worthiness. Aware of the superiority of information resources available to enterprises, the Bank faced a scenario in which the responsibility for the enterprises' failure to meet planned levels of achievement would at best be shared between the enterprises and the Bank.

Accordingly, consistent enforcement of credit-worthiness criteria does not contribute to the achievement of desired economic effects; at the same time, such enforcement will produce neither financial nor moral recognition. Accordingly, the Bank endeavoured to pursue a credit practice which permits a demonstration of the fact that determinations regarding enterprise credit applications are being made on the basis of "objective economic criteria" on the one hand, and that such determinations stabilize the Bank's position within the government, on the other.

For purposes of demonstrating this approach, documents governing the review of credit applications contain a special part concerning the control of credit-worthiness criteria. The Bank requested verifications from enterprises showing that their failure to fully comply with credit-worthiness criteria was caused by the achievement of some important objective. Enterprises had been rated as "credit-worthy," as "complying with the criteria of credit-worthiness but ...", as "reduced credit-worthy," and as "not credit-worthy". The actual financial conditions for the granting of credit were nevertheless formulated irrespective of the above classification of credit ratings. There were credit-worthy enterprises that have been dissuaded of taking credit, while others not worthy of credit had been granted credit. The Bank has granted credit pursuant to interest rate, collateral and amortization requirement established in credit policies, irrespective of the enterprises' credit ratings.

Credit-worthiness is not a primary function of objective criteria or of anticipated profitability. Instead, as a result of the nature of things, credit-worthiness depended in part upon the enterprises' past record of understanding of the Bank's concerns-e.g. at times when a so-called substantive view of credit practices prevailed, whether the enterprise was helpful in fulfilling the Bank's quarterly projections--and in part on the political and economic significance of the enterprise.

Some view this as an infringement upon the idea of credit practices based on objective criteria, indeed. This practice, however, is not related to the Bank's interests, but rather to the antiquated method used in determining credit-worthiness. It is for this reason that with respect to international credit, cash flow indexes are being routinely applied in judging the credit-worthiness of an enterprise. In other words, if the cash flow indexes of an enterprise reach a point deemed to be critical in international practice, that enterprise will not be deemed to be fully credit-worthy.

Credit based on "objective" criteria is an illusion, which should necessarily be invoked by a Bank that conducts itself as a governmental regulatory body, so that with respect to credit policies the Bank does not align itself with prevailing considerations of politics and of mutual favoritism. Banks that are capable of providing sound commercial credit, that are capable of marketing their capital, and which compete for clients will not use the enterprise indexes as "objective criteria". They will use them to judge the relative financial condition of an enterprise.

An enterprise with a relatively unfavorable cash flow may obtain credit under relatively favorable conditions, if the stated objective of the credit is to improve the enterprise's cash flow situation. Liquidity can only be expressed partially in terms of indexes, because identical numerical changes in cash flow may be caused by a variety of processes. Cash flow indexes may show improvements, if for instance the demand for the products of an enterprise had been stagnating for two or three years. Not knowing for what purpose to invest its money, the enterprise builds up cash reserves. Conversely, cash flow indexes may deteriorate if in the interest of broadening its market, an enterprise grants credit to its customers. Needless to say, any action plan designed to improve or to maintain the liquidity of an enterprise, regardless of the extent of detail presented, remains a mere promise. The bottom line of credit practices is a bank's confidence in enterprise management. The difference between bureaucratic credit disguised by objective criteria, and commercial credit rests on the basis upon which one can win or lose a bank's confidence. Stated differently: credit-worthiness is always subjective. Its quality depends on the objective economic and political conditions and on the basis of interestedness on which the partners function.

#### Many Modifications--Few Changes

Compared to the credit practices of the period 1968-78, the period 1979-85 shows several modifications but only a few changes.

The main criticism of previous credit practices was that these practices themselves encouraged the building of cash reserves within enterprises. The issue of whether a once-a-year audit of cash reserves, rather than audits five times a year would render realistic views of liquidity, was the subject of debate. Multiple audits would provide a more realistic picture of the durability of cash reserves. The debate ended by concluding that the new method of credit practices could apply in cases where as long as the level of operating funds was maintained at levels corresponding to cash reserve levels, as those levels are measured by the chronological method [i.e. five times a year]. In situations where based upon a once-a-year audit the operating funds must be manipulated in order to be brought in line with the "durable" reserves, the old system would remain. This includes agriculture and domestic commerce.

As a result of this "modernization", enterprises must pull off the trick five times a year on given days, while the Bank also experienced an increased administrative burden stemming from the multiple audits. This then would tend to lessen the stringency of individual audits. Other actions affecting reserves were coupled with a slower rate of increase in documented reserves, even though there was no marked increase in the turnover rate of reserves.



For this reason, the slower rate of increase in reserves must be attributed to the slower rate of increase in production.

With respect to operating funds, credit practices do not sufficiently differentiate between production and marketing peculiarities of various enterprises. Accordingly, on occasion, enterprises feel obliged to retain borrowed funds for which there is no momentary need, in other instances they will be denied credit, even though they are in need of funds. Revolving credits only lessened the problems, since the conditions for obtaining revolving credit were the same as those of other regular loans to enterprises, determined on the basis of the financial resources of the enterprise on a given day. This situation came about as a result of the fact that the Bank based its determination primarily on the justification of loans, thus regulating the volume of expendable money in circulation.

#### They Did Not Take It Seriously

Since this relationship remained unclear, many felt that the modernization of operating fund credits should materialize in the form of credits tied to "actions". This concept then was topped with an idea proposed by enterprises, according to which the Bank should "be in the business" also, meaning that together with enterprises, the Bank should assume part of the losses or gains—as such losses and gains are being calculated by the enterprises, quite naturally. The Bank, of course, was able to see through this veil, and responded with the introduction of a new construction of credits, based on just financial need, independent of a case-by-case assessment of the relationship of available financial resources. Credit-worthy enterprises thus had an opportunity to borrow funds up to a certain percentage of their projected annual income, as that percentage had been determined by the Bank, within a given year, without any specific requisitioning of credit.

But let us think through the following. Commercial credit is flexible because interest rates, expiration dates, installment payments, availability, and other conditions depend upon the bank's financial possibilities and upon the credit-worthiness of the enterprise. Flexibility does not mean that balance is being realized by virtue of a "stringent" or "lax" determination of the extent to which there is a lack of funds. Flexibility means the choice of appropriate monetary categories. In the case of commercial credit, the standardization of credit construction revolves around the issue of whether administrative and economic advantages stemming from that construction are in balance with damages stemming from standardization—damages that turn clients away. Considering all this, in spite of its positive features, the introduction of the new construction cannot be considered as a step toward commercial credit practices.

We must mention the short term competition of investment credit applications. The idea is based on the notion that in commercial credit practices, programs that promise better returns have better chances. In Hungary this concept was applied through the accumulation of a number of credit applications by banks interested in commercial lending. The banks then ranked the applications by assigning points to various parameters. To make it more impressive, ranking was done with the aid of computers. Based on this concept some 230 investment credit applications competed for funds in 1981.

The decision-makers in the bank could not, and did not take the results of the competition seriously. For example, the sixth ranking enterprise obtained a lesser amount of funds than the 203rd ranking candidate. It did so under less favorable conditions, requiring a larger amount of its own resources.

#### The Independence of the Bank of Issue

According to the precepts of banking reform, the Bank of Issue must assume a more active role in the development and implementation of the people's economy plans. At the same time, however, the task for the immediate future is the establishment of a balance between resources made available through domestic income utilization and foreign trade. This task must be accomplished through the decisive use of monetary measures. There is a contradiction, nevertheless between the role assigned to the Bank of Issue and its responsibilities. The idea of creating a monetary balance is based on the presumption that in its credit practices the Bank of Issue will continue increasing the requirements of return, and parallel with this activity, will motivate commercial banks to collect deposits, until such a time that balance has been established, irrespective of variations in national product and national income indexes.

This concept, however, does not fit the logic established by conditions of planning and economic management. Planning has a dual function. First, it establishes priorities for economic tasks, and second, it provides an a priori redistribution of resources among the various actors within the economy. In other words, it fixes the distribution ratios and orders of magnitude for the duration of the plan, before market forces could come into play.

The monetary regulation of the economy has the advantage of not providing preferential treatment to select, partial processes, instead it provides advantages to enterprises and programs that are more favorable from the economic/market viewpoint--enterprises and programs that promise a greater return. If the Bank of Issue, together with other management organizations, shares the responsibility for the development and implementation of the people's economy plan, it will not be able to free itself from the dilemma we had mentioned at the outset. This way, the Bank of Issue is bound to lose its role as a monetary regulator, even before it in fact acquires that role. In view of advantages implicit in the monetary regulation of the economy, it would appear as useful to establish strong, institutional protection for the independence of the Bank of Issue.

The interest of commercial banks is similar to that of the enterprise sector. The profit motive of banks is an important element, because it prompts banks to evaluate the credit-worthiness of enterprises in a manner that includes a review similar to that found in commercial lending practices. If, on the other hand, banks are not interested in the marketing of capital, the viewpoints of bureaucratic credit practices will continue to prevail in the banks' determination of enterprise credit-worthiness. Predictably, the latter will dominate in the event of a clash between these two viewpoints. It is important that this problem be resolved on its merits, and in a manner synchronized with the enterprise sector. When subject to credit review, enterprises not interested in capital development will do everything possible to conceal the risks attendant to their undertakings. This, in turn, will prompt banks to increase their formal, administrative restrictions, because, in essence, each partner manifests the same kind of conduct.

## PILOT RUBLE RETENTION ACCOUNT SYSTEM ASSESSED

Lublin SZTANDAR LUDU in Polish 22 Dec 86 p 3

[Article by A. Mankowska: "Exporters Appetites vs Regulations"]

[Text] The foreign exchange allowance accounts, which enterprises that export to countries of the second payments area possess, have been recognized as one of the most powerful stimuli of export production development. On the basis of this well-functioning system, ruble retention accounts--experimental for the time being--have been introduced. This was justified in that exports to socialist countries are large. In Lublin Province, for example, exports to socialist countries constitute 61.6 percent of total export deliveries (data for three quarters of this year). There are also enterprises that export exclusively to socialist countries. It is, above all, these enterprises that besides tax exemptions and bonuses for exports also wanted benefits from this activity similarly to exporters to capitalist countries.

Experiment for 106 Enterprises in the Country

The so-called ROR [ruble retention account system] was able to open this year [1986] 106 enterprises in the Commercial Bank [Bank Handlowy]. There are four such enterprises from our region: the Chelm Shoe Manufacturing Plants, the WSK [Transportation Equipment Plant] in Swidnik, the FSC [Truck Factory] and the Automobile Repair Shops in Lublin. After a year of the functioning of ruble retention accounts, the Polish Chamber of Foreign Trade decided to gather conclusions from the initial experiences.

Above all, according to many well-known exporters, imports from socialist countries are limited by rules and regulations about distribution and also by the principle of mandatory mediation in trade turnover which means that a condition for the implementation of supplies of raw materials or machinery from imports is the presentation of concrete needs in international agreements. In such a situation, having ROR is of no value despite the fact that the Council of Ministers No 153, which specifies the conditions of the ruble experiment, predicts that 98 percent of the total sum of the allowances will be allocated for investment purchases, production components and industrial safety and hygiene equipment. The example of the Krakow "Pollena-Miraculum" factory is characteristic here. With its ruble allowances it wanted to



import aluminum tubes from Hungary for toothpaste with beauty cream but the Universal Foreign Trade Center informed the factory that the size of the tube import has been strictly defined in the 5-year agreement and that nothing may be purchased over and above this quota.

The failure of the rules of law and practice to come together occurred not only in this one case. The terms of the principles of allowances dictate that this can occur after the implementation of the entire contract. However, what about an enterprise that is implementing a long-term agreement and would like to have ruble allowances earlier? The Polmag Guild of Mechanized Mining, for example, found itself in such a situation. At a conference meeting it proposed the introduction of the principle of on account allowances which could solve the problem.

#### Independently--Within the Reins of Rules

The executive rules of the resolution on ROR were generally described as unclear, complicated and vague which, among other things, contributed to delays in the setting up of ruble allowance accounts by many enterprises taking part in the experiment. And this already tight net of terms and conditions for the use of ruble allowances was reinforced rather during the course of the experiment. For example, the ministry of foreign trade issued a directive that the basis for allowances may only be the net sum of exports. Later, it added on yet another condition, namely that these should be profitable exports.

The functioning of the allowance account is generally described as complicated. At the same time, exporters criticize the fact that an enterprise has to be tied to foreign trade centers during the setting up of such accounts.

Complaints that there is a lack of comprehensive information on the subject of the possibilities of purchasing capital goods or raw materials on the markets of socialist countries are also addressed to foreign trade centers. Small enterprises, in particular, without qualified foreign trade services have difficulty in recognizing such sources of purchase.

A kind of storm in a teacup arose around the issue of the servicing of foreign business trips of the workers of three large enterprises of the country's aviation industry: the Communications Equipment Manufacturing Plants in Swidnik, Mielec and Rzeszow which in financing the aforementioned trips from ruble allowance accounts would like to handle the formalities associated with this by way of the Pezetel Foreign Trade Enterprise in Warsaw. It turns out that there is an obstacle to all this in the form of a ministry of finance rule that specifies the principles of using the allowances by account holders but not a word about the transfer of funds. Furthermore, it was generally proposed that the interest on ruble allowances for workers foreign trips be increased well over the 2 percent prescribed by the law.



## Valuable Bearskin

In light of what has been said about the functioning thus far of ruble allowance accounts or rather about their nonfunctioning, it is difficult to drive away the thought that the impediments in using them had their roots not only in the form of rather inflexible trade agreements with socialist countries but also in the bureaucratic structures of foreign trade organizations. How else can the fact be explained that the council of ministers resolution No 153 with regard to the ruble experiment is dated 4 October 1985 while the executive order of the NBP [Polish National Bank] president did not appear until 5 February of this year [1986] and that of the Commercial Bank president even later—22 April? After all, the experiment was to be in effect only during the current year. No wonder that less "experienced" exporters were not able to obtain ruble retention accounts until the third and fourth quarters of this year [1986] and in such a situation they can really only evaluate the regulations alone rather than the functioning of the ROR system.

And yet, even though the discussion at the meeting of the privileged experimenters was reminiscent of dividing the skin on a live bear, no one wanted to give up this loot. Quite the contrary—it was proposed that the duration of the experiment be extended while taking into account postulates from practice thus far.

At the same time it turns out that even with rigid, greatly imperfect regulations, there were deviations from the rule of the nonfunctioning of ROR. A large exporter, the Stalowa Wola Steelworks, which was able to scrape up over 6 million rubles, is on the best road to spending a portion of them for the purchase of 13 buses in Czechoslovakia for transporting its workers. Through the PHZ [Foreign Trade Enterprise] Bumar and other centers, it intends to look in Socialist countries for possibilities of buying tools, abrasive material, bearings, casting graphite and other materials expecting to save \$2.5 million on this—money which until now was absorbed by their procurement in socialist countries.

One thing is certain—the demand for raw materials and component parts, machinery and replacement parts is great and with foreign exchange restrictions, ruble imports undoubtedly constitute a chance worth struggling for. And a final comment: imperfect, overly constrained rules and regulations should be changed but in spite of this they will not be properly utilized if the ingenuity of exporters will not meet them half way.

9853/9835

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## REPORTER VIEWS LODZ 'POLONIA' FIRM ACTIVITY

Warsaw KURIER POLSKI in Polish 29 Dec 86 p 3

[Article by Danuta Giera: "Myths and Facts"]

[Text] They were surprised that I was going. "Why bother yourself with Polonia firms," some of my friends remarked. "After all, it is a well-known fact that they will not have a field day in our country for long. Some of them are padlocking their doors whereas in other cases permission to carry on business is being revoked." Despite this, I decided to go.

The Inter-Polcom Polish-Polonia Industrial-Trade Chamber had organized a meeting in Lodz to which journalists were invited. The Council Presidium and Chamber Board were to deliberate at the headquarters of the TOP-MART foreign enterprise. This was to serve as a session in honor of the firm which was celebrating the 10th anniversary of its existence. The owner of the enterprise, Stanislaw Szewczyk—a pioneer of the Polonia economic movement—greeted everyone at the entrance to the building. He proposed to those gathered a tour of his realm.

The modern facility with over 6,000 square meters is in part made up of a warehouse—for the time being. In another part, women are sitting and sewing warm protective garments. Nearly 95 percent of the production is composed of garments which are sent to Switzerland and the FRG.

"How much do you earn?" I asked one of the workers. "That depends on what I am sewing. There are different degrees of difficulty. Besides this, I do piecework. Currently, I am finishing quilted jackets. I hem approximately 165 pieces daily. As much as 400 pieces go through my hands in other assortments. I make approximately 30,000 zloty plus bonuses."

However, the matter of bonuses depends. One of the supervisory workers recalled an incident in which one of the female workers wanted a bonus—because of her name. When he explained to her why she did not receive the extra payment, she asked: "Do you know what my last name is?" "I do and what of it?"

There are many state enterprises in which the magic of one's last name might have worked. However, Polonia businessmen have their own rules of the game.

That is why work productivity per employee at the Inter-Polcom branch in Lodz is very high and in Lodz, for example, it comes to approximately 200,000 zloty monthly per workers directly employed in production whereas in the region of Skierniewice, it amounts to more than 300,000 zloty.

The working conditions of the work force at the TOP-MART enterprise are excellent. The production rooms and sanitary facilities shine with cleanliness. Even toilet paper is not lacking and soap is available and hand towels are hanging which surprisingly no one seems to steal. There is also a smoking room but here there are no excessive comforts. In a rather large room, there stand evenly placed tall ashtrays against both sides of the wall. To our question, why there are no chairs, we were told: "This is where one smokes and returns to work quickly."

Overwhelmed by the expanse of the facility (not fully utilized) and the working conditions of its work force, we gathered in the conference hall. Tadeusz Bielski, chairman of the Inter-Polcom council, presided over the plenary session of the chamber. A group of foreign enterprise owners in Poland was also present. An animated discussion developed on the basis of information on ZPDW in the region of Lodz. A number of issues were brought up which according to the discussion participants impede the development of foreign enterprises in Poland. The adaptation of the production profile to the needs of the Polish crisis economy was discussed. Important comments were made regarding the following areas, in particular: investments, tax encumbrances, access to producer raw materials and producer goods, domestic and foreign coproduction, etc. The incohesiveness of implementational rules and regulations which enables their free interpretation by individual provincial offices or fiscal chambers was also pointed out. The lack of respect for the work time of managers in Poland was contrasted with the conditions in the countries of their origin. One of the owners said, "They call me in the FRG from a bureau which is comparable to the fiscal chamber and ask: 'Sir, we want to come on Thursday at 10 am for an inspection. May we?' 'Just a moment, I will check my calendar,' I reply. 'No, please come next week--Tuesday would be best,' I add. 'Alright. Thank you.'" To my astonished look, he answered: "There is nothing to be surprised about. After all, they live off of me. They will take my time; the turnover will be smaller and thus, so will the taxes."

"A number of issues, which were discussed, had already been noticed earlier by the chamber," stated Tadeusz Kaminski, its president in his speech. "Inter-Polcom has worked out proposals with regard to changes in the legal-financial system of foreign enterprises in Poland. They concern taxes, the activation of exports and the policy of issuing permits by provincial offices. These proposals have already been sent to the proper authorities. We are now waiting for a reply."

"Let us hope that it won't be too long!" a voice in the hall can be heard saying.

Later, it was commented in the corridors that many proposals had already been submitted during previous Polonia forums and, unfortunately, many of them have not seen their implementation. Businessmen are bothered, above all, by the fact that foreign capital invested in Poland is treated differently by subsequent laws. For example, the one that concerns small businesses from 1982 is more strict than the law of 1985 regarding joint ventures.

The Alexis plant in Lodz is an example of potential and ingenuity. The firm, whose owner is the brother of the famous No 1 agent, Ivanov Szajnowicz, upgrades synthetic fabrics of little value and manufactures colorful, esthetic looking and functional travel and school bags according to the latest foreign fashion. This company has also started the production of cables and lines for construction needs. It is building a new plant to expand this production. The pace and order on the construction site remains only to be envied.

It is worth concluding the report on the Inter-Polcom conference with the following constructive information: during a visit to the construction site of the Polish Mother Health Center [Centrum Zdrowia Matki Polak] monument, the chamber pledged the latest contribution--a quarter of a million zlotys--to the building of this so greatly needed health center.

In spite of the skeptical remarks of friends, it was worth going to Lodz. I took a closer look at the firms which have been surrounded by many myths and controversy. Of course, one can have different opinions on them. However, it is certain that they are functioning with a noticeable benefit to our market and our economy.

9853/9835  
CSO: 2600/300



## WARSAW TV SHOWS OBSERVERS AT 'OPAL-87' EXERCISES

LD122114 Warsaw Television Service in Polish 1830 GMT 12 Mar 87

[Unidentified correspondent's video report from "Opal-87" exercises]

[Text] Soldiers of the Polish Armed Forces are holding open-air exercises in this winter's particularly difficult conditions. "Opal-87" is the first exercise of the Polish Army in 11 years to which foreign observers have been invited. [Video shows tanks and APCs in action, soldiers firing submachine guns and a group of observers on an embankment watching the exercise through binoculars] This has become possible as a result of the agreement at the Stockholm Conference in 1986. Today and tomorrow the total number of soldiers taking part in "Opal-87" will reach the ceiling of 18,000. The operational and tactical premises of this exercise reflect the defensive nature of our military doctrine. [Video shows a plan of the battleground] The observers taking part in it were able to convince themselves of the efficiency of our soldiers and their mastery of battle skills. [Video shows a group of observers]

Having been given information about various stages of the exercises, today the guests watched the defensive activities of our soldiers in the defense zone.

[Begin recording in English with superimposed translation; transcribed from the English] [Colonel Per Mathisen of Norway, identified from screen caption] I expect to see the soldiers of the Polish Army in the open-air conditions and to be able to compare them with the Norwegian Armed Forces.

[Major Norbert Simm of Austria, identified from screen caption] In my opinion this is very significant to us to be able to watch all the exercises, both in Eastern and Western Europe. And this is very significant for all states in Europe.

[Lieutenant colonel, screen caption identification indistinct] I think that it is very impressive, what you have prepared.

[Correspondent] How have you been received?

[Lieutenant colonel] Very well, very good organization and very good atmosphere.

[Correspondent] What do you think about inviting military observers to a military exercise like this?

[Lieutenant colonel] We are happy that a breakthrough has occurred. We think the doors were closed for too long. Now they are open, and we are very pleased with it. [End recording]

The observers were also given the opportunity to visit the units taking part in the exercise and to make direct contact with the commanders and soldiers.

[Begin recording; video shows interpreter translating conversation]

[Unidentified speaker] Welcome. This is the platoon commander; this is the squad commander.

[Unidentified Western observer--English; video shows him leaning over a soldier operating equipment out of camera range] This equipment, is it radar or infrared?

[Unidentified speaker] This is a radar station, for reconnaissance. It works on the Doppler wave principle.

[Observer--English] I see, I understand. [End recording]

These direct contacts prove yet again our openness and hospitality and give a good opportunity for the observers to convince themselves that the exercise is conducted in accordance with the Stockholm decisions and is based on defensive actions in accordance with our Polish and coalitional doctrine.

[Begin Colonel V. Yakushev recording in Russian with superimposed Polish translation, identified from screen caption] I think that everyone can see that we are really learning what we should be learning, and second that we wish to show by such invitation that we do not threaten anyone or anything. We are preparing for the defense of our borders. In this I see the sense of this exercise, and I would like the other side to become convinced of this. [End recording]

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CSO: 2020/76

## COLONEL COMMENTS ON WESTERN MILITARY OBSERVERS

LD121125 Warsaw International Service in English 2230 GMT 11 Mar 87

[Text] On 9 March the northwestern territories of Poland became the site of maneuvers of units of the Polish Army, codenamed "Opal-87." We have invited Colonel Zbigniew Bednarski from the National Defense Ministry here to comment on those maneuvers, their scope and purposes.

[Unidentified reporter] Colonel Bednarski described "Opal-87" as division level maneuvers meant to prepare the Polish Army to counter an enemy attack and to train troops in defensive actions. The maneuvers have been organized by the Pomeranian Military District with the participation of some 18,000 soldiers. That number, Colonel Bednarski explained, exceeds the level set at the Stockholm Conference on Security and Confidence-Building Measures in Europe; therefore Poland had to report the maneuver plans to the country signatories of the Helsinki Final Act and also to invite foreign observers. The concerned countries were notified already last year.

As the colonel disclosed, Poland also plans to hold international maneuvers this year which must be reported to the CSCE members too. And they are codenamed "Friendship-87" and will involve army units from the Soviet Union, the German Democratic Republic and, naturally, Poland.

The current maneuvers have aroused considerable interest in the countries entitled to monitor them. The observers are being provided with all the acceptable forms of assistance. They are free to acquire on-the-spot information from the commander in chief and other officers as [as received] also to communicate with regular troops. They can also watch the maneuvers directly. What they are prohibited to do is to film, take pictures and record conversations. Those restrictions have not been introduced because of military secrets. In a similar situation in 1976 foreign observers in Poland did not experience such limitations, Colonel Bednarski says. However, he added, our representatives at NATO maneuvers have never been allowed more than eye inspection, so we have just adopted Western standards of procedure.

In his final remarks, the colonel pointed to Poland's efforts to curb the arms race, as practically manifested in three reductions of armed forces after World War II. Also, military maneuvers have always been limited to the absolutely necessary minimum. Poland is determined to fully and unreservedly implement the Helsinki Final Act and the document adopted by the Stockholm Conference, he declared, in order to continue the confidence-building process with military and political means. Colonel Bednarski mentioned the necessity of working out details of notification procedures on Air Force and Navy maneuvers as also of limitations concerning large-scale military activities. Finally, he emphasized the main objective of the Warsaw Treaty countries, which is to realize the idea of disarmament in Europe.

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CSO: 2020/76



## TRUTH, OPENNESS IN MEDIA ADVOCATED

Prague TRIBUNA in Czech 7 Jan 87 p 4

[Article by Rudolf Suchy, Plzen: "Truthful Information Instead of "Whispering Campaigns"]

[Text] The 27th CPSU and the 17th CPCZ Congresses concentrated their political reports on providing timely, truthful and better information to the broad public. The better people are informed the better they will understand the problems we are facing. Achieving the goals which our party advocates will also contribute more decisively, knowledgeably and actively to the promulgation of its policies. And this, after all, is what counts.

Recently, our press has begun publishing more articles of a critical nature about things that formerly were "kept secret" from the public. They spread out in public like an avalanche, most were deliberately twisted and distorted, doing harm to our society. Because no official stand had been taken which would have explained matters clearly and in proper context, various elements were able to spread their venom and, often under the cloak of anonymity, fired off their arrows poisoned with selfishness and hatred toward everything, especially socialism. Timely, prompt and truthful information in our reporting media are the most effective weapons for unmasking such elements.

Naturally, we are chiefly concerned about information which can mobilize the people, which can lead to acceleration of the economic and social development of our society, which affects our everyday life and meets the legitimate demands and needs of the people. We want to give people the opportunity to openly express their own opinions which may not always be fully in accord with official positions but represent honest efforts to find the best solution. This requires those who are responsible for a given sector to present information objectively and realistically, without hiding any problems or shortcomings.

We do not always obtain the requested information. We must simply assume that a complaint about a product's quality submitted through personal contact with senior officials or in writing will always reach the proper place. Yes, a letter of thanks will be read at a meeting but critical comments are very often handled only by officials of the commercial section and will

get no farther. With candle in hand we could perhaps look for working teams that know the level of their products on the international market with comparable parameters of top quality good from developed countries, know the exchange relationship of their export products, etc. Do the plant workers know that their production is "short" and what effect nonadherence to contractual commitments will have not only on consumers but also on the national economy? For the most part there is "tactful silence" about such matters. So the people's initiative and attempts at improvement are stifled.

Published letters and contributions from readers in our communications media are a sensitive barometer of public opinion, a rich source of their thinking, experiences, practices and initiatives. And this must be utilized. Those to whom these are directed must not overlook even the tiniest attempt pointing toward the common good. Experience shows that disregarding political involvement, ignoring opinions and legitimate complaints lead to a weakening of social activity. This reveals itself in detachment from political work, in refusal to participate in management and in negation of active involvement in public life. This results in people beginning to concern themselves only with personal matters because they can make decisions about those. They perceive individualization as the meaning of life and detach themselves from the public interest and the socialist way of life.

8491/9835

CSO: 2400/123

## JARUZELSKI OPENS WOMEN'S DAY MEETING

LD072045 Warsaw PAP in English 1920 GMT 7 Mar 87

[Text] Warsaw, 7 Mar—Today, the eve of the International Women's Day, President of the Council of State Wojciech Jaruzelski invited more than 50 women representing various generations, communities and regions to take part in a meeting at the Belvedere Palace here.

While opening the meeting, Wojciech Jaruzelski conveyed to the gathered women cordial wishes and thanks to Polish women for their everyday toil. Inviting to an honest and unrestricted—as he said—exchange of ideas, the president of the Council of State added that he wanted to avoid occasional, solemn and sentimental accents. The party and state authorities, he stressed, perceive the irreplaceable role of a woman—mother, woman-wife, and woman-working partner—not only on holidays but also every day.

Roman Malinowski, Zbigniew Messner, Jan Dobraczynski, and others also attended the meeting.

Women were speaking about the need to maintain traditional values of the Polish home, such as patriotism manifested by everyday attitude towards the affairs of the country and the surrounding, mutual cordiality, unselfish will to understand another man. These values are being shaped, above all, by the family with woman playing the decisive role in it.

The reform of Poland means not only changing old structures and establishing new ones, but, above all, work, often an organic one, on every field of human activity, it was stressed by the meeting.

There are no differences among Poles as far as peace and security of life on earth are concerned. Polish women are aware of threats posed by the militarization of outer space, armaments, constant violation of peace in various regions of the world.

In this respect, we support numerous initiatives and peace efforts of the Soviet Union and socialist states, we take part in various peace actions and we oppose threats of destroying life on earth, women said.

It was a rich, interesting and useful discussion, said Wojciech Jaruzelski at the close of the meeting, especially for us--representatives of the state leadership. Sharing opinions and proposals expressed by the women, the president of the Council of State said that all the problems discussed today would be carefully analyzed by the authorities. This applies especially to the most painful issues.

On behalf of the party and state leadership, Wojciech Jaruzelski once again thanked the participants in the meeting, and through them--all Polish women, for their creative presence in the life of the family and society, for huge toil in bringing up a new generation. The president of the Council of State wished Polish women to continue this work in good health and comfort for Poland's weal.

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CSO: 2020/77



## CONSULTATIVE COUNCIL SESSION WORK REPORTED

LD280933 Warsaw PAP in English 0614 GMT 28 Feb 87

[Text] Warsaw, 27 Feb--President of the Council of State Wojciech Jaruzelski chaired the second meeting of his Consultative Council at the Belweder Palace here today.

The discussion focused primarily on the key problems stemming from the prognoses of Poland's development, civilizational challenges facing the Polish nation in the perspective of the 21st century.

Members of the Consultative Council had received earlier analytical materials and expert opinions prepared, among other institutions, by the committee for prognosing Poland's development--Poland, 2000. Speeches opening the debate were delivered by the council's members, Professors Kazimierz Secomski, Jan Karol Kostrzewski, and Antoni Rajkiewicz, who commented on the present demographic situation and demographic forecasts, on the social ills and opportunities and possibilities for the development of Polish society. The council were particularly interested in the data indicative of the expected growth of Polish population and changes in its structure as compared with the prognosis for European countries in the years 1990, 1995, and 2000, as well as the social-economic consequences of them.

Many convergent and opposing views were voiced during the debate.

The council considered the directions of social policy, especially as regards the improvement in the state of public health, stressing above all the need for more efficient strategies against social pathologies like alcoholism and drug abuse.

The meeting discussed housing construction from the point of view of the necessity to speed it up. It also discussed community and integrity of tutelar efforts of the state and social organizations for the benefit of needs in health protection and combating severe social threats.

Coping with challenges of the future--this thesis was often stressed at the meeting--depends on a right choice of development priorities, especially as there are many needs to be solved. The thing is above all to halt and

to overcome unfavorable phenomena in the economy and in social life. Improving the quality of labor and increasing productivity as well as creating conditions designed to ensure food self-sufficiency of this country and protection of natural environment are crucial issues in mobilizing all social forces in Poland. The development of the process of national agreement, democratization, optimum use of the best staffs will be of particular significance in the implementation of these tasks.

The president of the Council of State said that during one of the next meetings of the council he would present ways to solve some of the issues which were discussed today and which are conducive to the building of national agreement.

Before the opening of the debates President of the Council of State Wojciech Jaruzelski, in the presence of the council's members, presented the director of the Royal Castle in Warsaw Prof Aleksander Gieysztor with the gift he had received from Pope John Paul II during his recent visit to the Vatican. These are two magnificent volumes of artistic reproductions of Michelangelo's frescos from the Sistine Chapel which were published in Japan in a small number of copies.

"I have come to the conclusion that the most worthy place for this excellent gift is the Royal Castle where millions of Poles can see it," Jaruzelski said.

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## DELEGATES ADDRESS VIENNA DISARMAMENT TALKS

LD160945 Warsaw PAP in English 0030 GMT 16 Mar 87

[Report by PAP correspondent Franciszek Malinowski]

[Text] Vienna, 15 Mar--The 4th Vienna dialogue--the International Conference on disarmament and detente, is holding debates in the capital of Austria.

The debates are attended by over 200 representatives from nearly 70 countries the world over, including a delegation of the Polish Peace Committee headed by its Chairman Hieronim Kubiak.

Today, on the third day of the debates, four subject commissions ended works which were actively attended by representatives of the Polish delegation.

The first commission, tackling issues of security policies and their influence on peace and social development heard an address delivered by Major Wieslaw Gornicki, a member of the Presidium of the World Peace Council and an adviser to the president of the Council of State. He said that the Soviet peace offensive had lasted for nearly 2 years and there were still no real signs on the part of Western governments that they were ready to start serious discussions. "For now talks are proceeding on talks while time runs by and mistrust towards the West is thus deepening and not only on the part of socialist governments but also the public opinion of many countries."

The commission tackling, among other things, issues of non-military measures heard a report delivered by Deputy Chairman of the Sejm (Parliament) Foreign [remainder of item indistinct].

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## DELEGATES ADDRESS VIENNA CSCE FORUMS

LD122022 Warsaw PAF in English 1820 GMT 12 Mar 87

[Report by PAP correspondent Franciszek Malinowski]

[Text] Vienna, 12 Mar--Representatives participating in the CSCE Vienna meeting continued to present and explain in working groups details of proposals generally put forward during plenary meetings.

Polish representative, Colonel Edmund Staniewski, taking part in debates of the group dealing with military aspects of security, expressed Polish delegation's support for proposals forwarded by representatives of the GDR, Bulgaria, Czechoslovakia and the Soviet Union. One of the proposals refers to the support of international negotiations and renunciation of force or the threat of its use in international relations.

Colonel Staniewski emphasized that the proposal on the development of military detente in Europe, put forward by Bulgaria, Czechoslovakia, the GDR and the Soviet Union is of special importance. The goal of this proposal is to strengthen security and stabilization. It aims towards the increase of efforts to halt nuclear tests, to implement nuclear disarmament and to prevent the arms race to move into outer space as well as to ban and eliminate chemical weapons.

The Polish delegate expressed support for those proposals which deal with the establishment of nuclear and chemical-free zones in Europe.

In the working group for humanitarian cooperation, culture and education, Polish representative Tadeusz Bieganski has substantiated in detail the proposal concerning cooperation in preparatory works and the publication of a European encyclopaedia.

The Polish delegate expressed support for a proposal of Bulgaria, Czechoslovakia and the Soviet Union on cooperation in the preparation of history and geography school textbooks.

Tadeusz Bieganski also expressed support for the proposal of the GDR which includes postulates to supplement curriculums of elementary schools and higher schools with information on the CSCE Final Act and other resolutions adopted in the course of the process initiated in Helsinki.

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## DELEGATES AT VIENNA CSCE TALKS CITED

LD172247 Warsaw PAP in English 2148 GMT 17 Mar 87

[Text] Vienna, 17 Mar--Today's meeting of the Vienna-86 CSCE review conference focused on the Polish-Austrian proposal to convoke a symposium in Karkow on the European cultural heritage.

Addresses by heads of the French and FRG delegations, Ambassador Pierre-Henri Renard and Ekkehard Eickhoff, respectively, were the highlight of the day. They declared their government's will to join proposal in question.

The two speakers stressed the common purpose of the planned symposium as well as the role and rank of Krakow as one of the cities which they described as cultural capitals of Europe.

Ambassador Renard said that by organizing the symposium in Karkow Poland underlined the importance of that city in the history of Europe. The common civilization has withstood the most severe trials of history and, being aware of this, we will surely be able to overcome divisions of this continent, he said.

The FRG delegate recalled that the FRG had manifested a friendly attitude towards the Polish proposal from the very beginning and pointed especially to the fact that the symposium would be attended not only by representatives of governments but also by personalities of European cultural life. He also said that FRG Foreign Minister Hans-Dietrich Genscher a few weeks ago had displayed interest in concrete moves made at the Vienna conference with a view to convening new meetings.

Next, the floor was taken by a Swedish representative who also said he had received an instruction from his government to support the Polish proposal.

Speaking on behalf of the Polish delegation, Adam Rotfeld welcomed the decisions by France, the FRG and other countries which joined in the proposal to organize the symposium in Krakow. He said that cooperation of those countries gave a new dimension to the proposal in the entire work of the CSCE Vienna meeting. Participants in the Krakow symposium will have an opportunity to learn just how many ties exist between the Polish culture and the common European heritage, how deeply it is rooted in the history of Europe. He also thanked for the words of friendship directed to Poland and Krakow in particular.

## DELEGATE ADDRESSES VIENNA CONFERENCE

LD191940 Warsaw PAP in English 1835 GMT 19 Mar 87

[Report by PAP correspondent Franciszek Malinowski]

[Text] Vienna, 19 Mar--The 41st round of Vienna Disarmament Negotiations on Reducing Armed Forces and Armaments in Central Europe, attended by delegations from 19 states from the Warsaw Treaty and NATO has not brought on a breakthrough.

Taking the floor at the latest session the head of the Polish delegation, Tadeusz Strulak, in his plenary address reviewed the state of the Vienna negotiations in the broader international context of the current dialogue on disarmament and security in all of Europe.

Drawing attention to the great significance of the new Soviet initiative on intermediate-range nuclear missiles the Polish representatives recalled how this issue had in the past influenced the course of the Vienna negotiations.

A radical solution of this matter should exert a positive influence on the prospect of achieving progress at the Vienna negotiations.

Ambassador Strulak stated that the key controversy of the Vienna negotiations concerned obligation not to increase armed forces. An acceptance of the Western version of the obligation on reducing and freezing would be equivalent to not fulfilling the mandate of negotiations which covers both armed forces and armaments, he added.

The chief of the Polish delegation stressed that finding a mutually satisfactory solution to the issue of the material substance of the proposed agreement was of fundamental importance. It would be helpful in a possible fast elaboration of the agreement and in solutions tied with the issue of verification.

Ambassador Strulak recalled that the key direction of Polish foreign policy was and is a striving to strengthen peace, security and cooperation in Europe, with special attention paid to the region of central Europe and that is precisely why in standing at the forefront of the initiatives and efforts aimed at conventional disarmament in all of Europe, Poland, like her allies, is still vitally interested in reaching a fast agreement in the Vienna negotiations.

## ORZECZOWSKI ANSWERS DEPUTIES' QUESTIONS

LD190009 Warsaw PAP in English 2249 GMT 18 Mar 87

["Foreign Minister Answers Deputies' Questions,"—PAP headline]

[Text] Warsaw, 18 Mar--In reference to a question posed by the deputies concerning the perspectives of the normalization of Polish-FRG relations Minister Orzechowski stated that they were largely conditional on the attitude of the FRG side.

We have frequently reiterated various offers concerning the improvement of these relations, but these have remained unanswered, Orzechowski said.

In a speech made in the Bundestag Chancellor Kohl expressed the will of basing the relations with Poland on the 1970 agreement. We hope that these relations will comply with both the spirit and the letter of this treaty and that they will enable a transition to a mutually beneficial cooperation to be made, he continued.

The minister stated that Poland attached considerable importance to various forms of dialogue with the FRG, including the Poland-FRG forum, of which representatives of various social circles from both countries are members. The next forum will be held between 7-10 May in Kiel under the motto "What can we do together for the future of Europe?".

We hope that this forum will help to pave the way for agreement with the FRG and for improvement of the political climate in Europe, he said.

Answering a question concerning the work of the joint Polish-FRG commission for textbooks, the minister stressed that both countries had undertaken to systematically implement in practice the commission's decisions. Also, it must be acknowledged that the FRG complied with many of the decisions. However, there still remain many areas in which progress has not only not been made but even a recourse [as received] has occurred. For example this concerns the atlases and maps appearing in the FRG with the non-existent 1937 borders still marked. The commissions work is therefore far from finished. We hold the opinion that the further work of the commission is indispensable.

Answering a further question, Minister Orzechowski said that the Ministry of Foreign Affairs knew of cases of Polish tourists being mistreated in other countries, as well as of Polish tourists breaching the customs and currency regulations abroad. This frequently stems from the lack of information about the regulations in force but also the deliberate breaking of the law. The majority of the tourists behave with dignity. The Ministry of Foreign Affairs must therefore defend the good name of Polish citizens temporarily staying abroad. In cases of discriminatory treatment of Polish tourists, as was lately the case in Sweden, our embassies carry out interventions.

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## RAKOWSKI DISCUSSES SOCIOECONOMIC COUNCIL AT SEJM

LD192042 Warsaw PAP in English 1924 GMT 19 Mar 87

[Text] Warsaw, 19 Mar--Taking the floor at today's Sejm meeting, Chairman of the Socio-Economic Council at the Sejm Mieczyslaw Rakowski said among others:

The Socio-Economic Council works almost in its full composition and at present it has 248 members. Sixty-seven percent of its members were nominated by their work establishments, the rest of them representing various organizations and socio-vocational associations. Forty-eight percent are university-level graduates and 40 percent have secondary and trade education.

Seventy percent of the council's members work in various self-governing organizations, thus it is possible to say that the body is mainly of a self-governing character.

Until now, the council has held 12 plenary meetings and adopted 15 opinions.

Forty-five percent of the council's members believe that the influence of the council's opinions on the documents passed by the Sejm is significant, while 46 percent believe that it is negligible.

During the last several months, discussion has become more heated as it manifests a concern over the worsening of living conditions, increasing impatience stirred by lasting difficulties and all those other problems which the members of the councils face every day.

Most of the council's opinions on forwarded draft laws is critical not because they are being dealt with by professional pessimists but because the reality is critical.

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## MALINOWSKI MEETS FRENCH PARLIAMENTARIANS

LD182302 Warsaw PAP in English 1911 GMT 18 Mar 87

[Text] Warsaw, 18 Mar--Several-member delegation of the French-Polish friendship group at the France's National Assembly has been visiting Poland since 17 March.

Today, the guests were received by Sejm Speaker Roman Malinowski. Malinowski expressed hope that the visit would be instrumental to invigorating inter-parliamentary contacts and would help speed up the return to traditionally good relations between Poland and France.

The Polish Sejm attaches major significance to inter-parliamentary cooperation, Malinowski stressed.

"We pay particular attention to expanding various forms of peaceful cooperation and to building confidence in international arena, including the consolidation of security in Europe. With this point in view, the Sejm studies the idea of holding in Poland a meeting of parliament speakers from countries signatories to CSCE which would provide an occasion for a joint analysis of the future of our continent," Malinowski said.

Deputies to the French National Assembly expressed their satisfaction over being offered possibility to directly familiarize themselves with transformations taking place in our country.

"I believe that these reforms are in tune with Poland's traditions and needs. It is our common interest to make the relations between Poland and France return to its former state which was beneficial for both sides," said the head of the French delegation, Francis Geng.

At the end of the meeting, Roman Malinowski reiterated Sejm's invitation for the president of the National Assembly Jacques Chaban-Delmas to pay a visit to Poland.

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## SEJM ADDRESS BY JASKIERNIA REPORTED

LD191517 Warsaw PAP in English 1340 GMT 19 Mar 87

[Text] Warsaw, 19 Mar--The following is an abridged version of Jerzy Jaskiernia's Sejm address:

A new regulation in form of a draft law on social consultations and referendum is being proposed, according to the preamble, in order to materialize socialist democracy in a broader scope and to expand forms of direct participation of citizens in power exercising. Among vital premises, one has to place also the constitutional right of citizens to the participation in consultations and discussions as well as the duty of state and administrative authorities to base their activities on referendum or social consultations.

Thus, it is no coincidence that an entry stating that under social consultations and referendum can be submitted issues having key importance for the development of the state or a defined region or citizens' interests and living conditions was included in the draft law.

The draft concerns solutions which have been known to the systemic practice in people's Poland, although they were applied with various intensity. The only referendum was held in 1946 and dealt with key systemic issues of our state, single-chamber parliament, consolidation of principles of the social and economic system in a future constitution and Poland's western and northern borders.

Social consultations were applied with varying intensity and range throughout the history of people's Poland.

Regulations concerning consultations with citizens and their organizations were included in many laws. In frames of changes in the constitution made in 1976, consultations were introduced into the constitution.

The deputies' draft law on social consultations and referendum was opined by organs of the Council of State, the Presidium of the Council of Ministers, Executive Committee of the PRON National Council, deputies' clubs and circles, deputies, and also distinguished representatives of the science of constitutional law.

In formulating individual regulations, we were guided by the assumption that in its essence and solutions, the intended law should be an example of direct democracy, however with the preservation of the constitutional role and legal-systemic position of representative organs and organs of state administration.

One of the principal problems to be settled is to decide if the social consultations and referendum are to have an obligatory or optional character. In both cases, the draft employs a clause which says that certain issues "can be the subject" of social consultations and referendum, thus an optional model is adopted.

The number of subjects deciding on conducting social consultations is broader than in the case of referendum because it includes the Sejm, the Council of State, the Council of Ministers, chairman of the Council of Ministers (in reference to national consultations) and people's councils and local organs of state administration (in reference to local consultations).

However, the decision on holding a national scale referendum on an issue would belong exclusively to the Sejm and on a local scale referendum to proper people's council.

The Executive Committee of the National Council of PRON and appropriate chief statutory bodies of nationwide organizations would be authorized to put forward motions on conducting consultations of nationwide reach. As far as consultations of local range are concerned, that authority would be vested in the Presidium of the local PRON councils of appropriate level, as well as in the proper statutory and self-management organizations of local character and of appropriate level.

As far as the possibilities of putting forward motions on submitting an issue to a referendum, the number of authorized subjects would, taking account of a special character of this solution, be more limited than in the case of consultations. In reference to a nationwide referendum authorized would be the Council of State, Council of Ministers and National Council of PRON whereas in the case of a local referendum authorized would be the Presidia of people's councils, local bodies of the state administration of general character and local PRON councils.

Also significant is the question about legal character of the referendum proposed in the law. The draft states that referendum's result shall be taken under consideration while deciding on the case submitted to a vote, if more than half of those eligible to participate in the vote were in favor of a given solution. The result is published.

Movers' intention was proposing a referendum whose result would be binding (provided the draft has proper support). The final decision would be in the hands of a representative body (the Sejm, or a people's council) which would be bound by the referendum's result.

The presented draft is a confirmation of our readiness to step along the path of socialist renewal, improve the mechanisms of socialist democracy through socializing the decision-making processes in the state.



## AGRICULTURE TU CONGRESS CONCLUDED

LD202113 Warsaw PAP in English 2020 GMT 20 Mar 87

[Text] Warsaw, 20 Mar--The Second National Congress of the Federation of the Unions of Agriculture Employees, affiliating 500,000 trade unionists, ended here today.

PUWP CC Political Bureau member and head of All-Poland Alliance of Trade Unions (OPZZ) Alfred Miodowicz stressed that to negotiate a law on the remuneration systems and to stop the price race in the economy were the most important issues for the trade union movement now.

Agriculture Minister Stanislaw Zieba said that inexpensive food meant great subsidies that the state cannot afford, hence increasingly scarce means for agricultural development. However, one should eliminate everything that causes unjustified rise in production costs entailing the growth of retail prices.

The congress resolution stressed that the federation deemed the protection of the employees' living standard and the prevention of deterioration on their socio-professional condition a particularly important task. In this connection, it demands that the government should take "firm steps to curb and limit growing inflation, particularly by increasing the production of marketables, structural changes of investment outlays and the de-monopolization of production and supplies."

The activity serving to increase agricultural produce will be another important line of work. As for the trade unionists' international cooperation, a particularly important task is to prepare and hold in Poland the 40th jubilee session of the International Association of Agriculture, Forestry and Plantation Employees.

The congress called on agriculture unionists and employees worldwide to step up actions to preserve peace.

The heads of foreign delegations of related trade union organizations from Austria, France, the GDR and the USSR, and a representative of the International Association of the Unions of Agriculture, Forestry and Plantation Employees, taking part in the congress, conveyed greetings to Polish trade unionists.

## PZPR'S BEJGER VISITS ZIMBABWE

LD161442 Warsaw PAP in English 1402 GMT 16 Mar 87

[Text] Harare, 16 Mar—A delegation of the PUWP CC, headed by alternate member of the PUWP CC Political Bureau Stanislaw Bejger, paid a visit to Zimbabwe at the invitation of the Zimbabwe African National Union - Patriotic Front (ZANU-PF).

In the course of the talks, during which the side of Zimbabwe was headed by Political Bureau member, CC secretary for international affairs, Chairman of Parliament Didymus Mutasa, the sides exchanged information on the internal situation in both countries, inter-party cooperation and some international issues. The sides also signed a protocol on cooperation between the PUWP and ZANU-PF.

The delegation also held talks with top officials of ZANU-PF and ministers on prospects of economic cooperation between the two states. Meetings with governors of the two largest industrial provinces in Zimbabwe also served that end. Stanislaw Bejger was received by vice president of ZANU-PF, Deputy Prime Minister Simon Muzenda.

Members of the PUWP CC delegation also acquainted themselves with the production of the biggest metallurgical complex in Redcliffe in the Midlands province, where they took part in the opening ceremony of an exhibition "contemporary Poland" and the screening of a film devoted to Poland.

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## URBAN ON CONSULTATIVE COUNCIL, OTHER ISSUES

LD040523 Warsaw PAP in English 2027 GMT 3 Mar 87

[Text] The Session of Consultative Council

Answering a question referring to the last session of the Consultative Council attached to the president of the Council of State, Urban said:

Despite doubts expressed by the Western press the Consultative Council is becoming a very important organism. The state leadership pays great attention to opinions and postulates formulated at the Council's sessions. Highly varying opinions are expressed with complete freedom at the Council's meetings. The state organs take into consideration suggestions and desiderata presented by the Council's members and will continue to do so in the future.

At its second meeting the Council touched upon issues fundamental for the country's future. It is the debate on key problems that is the most important and not small sensations picked up by the Western press from talks with some of the Council's members.

The minutes of the Council's first session will be published shortly.

The course of the second session of the Council will be announced fully and without any restrictions as soon as possible--probably in April. The Council itself and the president of the Council of State will decide every time whether records of sessions are to be published.

Detailed reports from sessions will be published by the RADA NARODOWA weekly of the Council of State.

The reports by the Western press on the second session of the consultative council at the president of the Council of State stressed the motion forwarded there and concerning a free return to Poland of persons who left this country after 13 December 1981. The government regards as binding for its policy in this area the declaration of the president of the Council of State encouraging such persons to come back to Poland. This does not mean immunity for people who have committed abroad serious offences against Poland and have not availed themselves of the clemency act.

The other issue tackled by the Western press is the employment of people released under amnesty. That the Western mass media should take up the problem of jobs for people released under amnesty is surprising in a way as it is the press representing countries which have unemployment problems, in which it is much more difficult to find a job than in Poland, which have regulations banning from employment in state institutions persons holding political views that the government does not like.

#### Wladyslaw Baka in Washington

President of the National Bank of Poland (NBP) Wladyslaw Baka paid a visit to Washington last week, Jerzy Urban stated in reply to another question.

The aim of the visit by Wladyslaw Baka, Poland's governor at the World Bank, was to establish working contacts with the management of the World Bank and to agree concrete directions and forms of cooperation as well as to review problems and formulate proposals concerning the World Bank's possible participation in crediting development ventures in Poland.

Poland wants to authentically take part in all forms of the World Bank activities serving economic development and international economic cooperation. This has been manifested, among others, by the NBP president notifying of Poland's joining the International Financial Corporation (IFC), both affiliated to the World Bank. Concrete decisions were adopted during the visit concerning the participation of Poland's representatives in organizing programmes as well as concerning the participation of Polish firms in contract tenders organized by the World Bank.

The meeting of the NBP delegation in the World Bank and in the IMF served mainly to explain Poland's point of view on the subject of overcoming the debt crisis and economic development. It is well known that it is based on two principles. The first is: Poland declares its will of meeting its obligations, and judges that further reorientation of exports and a general improvement in the efficiency of management will serve this purpose well.

The second principle says: The solving of the problem of Poland's foreign debt can be achieved only in a longer period of time on the basis of close cooperation of creditor countries and the creation of conditions for the inflow of new long-term credits needed to speed up export-oriented production and to create favorable circumstances for a prompt debt servicing.

During the concrete talks with the management of the World Bank, the procedure and the time-table for further work was agreed upon. Wladyslaw Baka delivered an official invitation to Mr Conable, the president of the World Bank, from the chairman of the Council of Ministers Zbigniew Messner, to pay a visit to Poland. The invitation has been accepted.

During his stay in Washington the NBP president paid a good will visit to Paul Volcker, head of the Federal Reserve Board of Governors.

Wladyslaw Baka also paid a visit to the State Department. During an open talk, which was not free of controversy, with Mr T. Simons, the two exchanged views on the prospects for development of economic relations between Poland and the United States.

In the context of the NBP President Baka's visit I would like to say, Urban stressed, that only the future will tell, whether our cooperation with the West, is, in the West's understanding, to limit itself to the paying by Poland of usurious percentages from the debt or whether our export capabilities will be aided by credits.

We will also see whether the lifting of American restrictions was only a formal gesture or whether privileges facilitating the overcoming of the effects of the restrictions, which the Polish nation will continue to feel acutely for a long time yet, will follow.

At the present moment our economy is receiving real outside help only from our friends, the Soviet Union, the CMEA. Therefore, I would like to stress with full force, that it is here that our main interest in cooperation is and will be concentrated. Only the developing ties with the Soviet economy can turn us into a strong and attractive partner also in the West. Poland's talks serving the unblocking of economic contacts with Western countries and international organizations should be looked at through this prism and with this priority in mind.

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## URBAN 10 MARCH CONFERENCE REPORTED

LD102100 Warsaw PAP in English 1645 GMT 10 Mar 87

[Report by Leszek Kubiak and Mirosław Luniewski]

[Text] Warsaw, 10 Mar--At a news conference here today for Polish and foreign journalists, government spokesman Minister Jerzy Urban spoke on Polish-Soviet consultations preceding Gorbachev's 28 February initiative, compensation for losses inflicted on Poland by U.S. restrictions, closing of investigation against Swedish driver, Primate Glemp's comments on finalization of work over establishment of diplomatic relations between Poland and the Vatican, possibility of exchange of ambassadors between Poland and the United States, welfare ministers meeting in Warsaw, opening of a Polish consulate in Lvov, Father Tucci's arrival in Poland, Chinese foreign minister's visit to Poland, government stand on harassment of Poles in Sweden, fighting in Lebanon, international indebtedness, warning talk to Janusz Onyszkiewicz, and constitutional tribunal ruling on the admission of women to medical universities.

## Polish-Soviet Consultations

Asked whether Poland and the USSR had had prior consultations on the Euro-missile initiative Gorbachev announced last 28 February, Urban said Poland had been informed on the form of the proposal and backed it.

## Compensation for Restrictions-Related Losses

Asked by PAP external service journalist about possible compensation for the losses caused to Poland by the U.S. economic restrictions, Urban replied that "as realists, we do not expect compensation for the losses.

"What we want are normal relations with the United States and other Western partners, along lines which will make possible to gradually eliminate the effects of those restrictions," he added.

#### Investigation Against Swedish Driver

Asked if the Swedish driver caught trying to smuggle printing equipment into Poland would stand trial, the spokesman said the investigation into the case had been completed and a formal indictment might be expected to be filed with court.

#### Work on Establishment of Polish-Vatican Relations

Requested to comment on Primate Glemp's saying work was nearing end on establishment of diplomatic relations between Poland and the Vatican, Urban said Poland was seeking diplomatic relations with the Vatican and wanted them.

Urban added that work was continuing over a law which would give formal legal status to the Roman-Catholic Church, and added that the primate was likely to have brought fresh impulses on that matter from Rome.

#### Possible Exchange of Ambassadors Poland-U.S.

Asked how soon Poland and the United States might exchange ambassadors, Urban said he hoped that the success of Czyrek's ongoing U.S. visit would be seen as an important step forward in mutual relations.

"The visit should serve normalization in which at a certain stage both countries should exchange ambassadors. A relevant decision can be prompted swifter by U.S. actual elimination of the consequences of the restrictions and other unfriendly moves."

#### Welfare Ministers Meeting

Asked if Poland would host a meeting of welfare ministers, Urban said a regional meeting of the ministers was scheduled for 6-11 April, in Warsaw, as the final stage of the preparations for an interregional conference in Vienna due in September of this year, under a UN Economic and Social Council resolution on social development and welfare policy.

The agenda would include a review of the situation in welfare policy since the previous European ministerial conference in 1972 and its development and aims until the year 2000, Urban said.

#### Polish Consulate in Lvov

Asked whether it was true that a Polish consulate is to be opened in Lvov, the Soviet Union, Urban replied it was true.

#### Arrival of Father Tucci

Asked about security steps aimed to ensure protection to the pope during his visit to Poland, Jerzy Urban stated that Father Tucci arrived in Poland to discuss those matters with competent authorities. Answering a

question concerning the cost of the papal visit, Minister Urban said that the state would cover the sanitary [as received] costs related to the visit, while the church would provide for the pope's sustenance. "There are various sources of financing," he said.

#### Chinese Foreign Affairs Minister's Visit

Asked what Poland expected from the visit of Minister of Foreign Affairs of the People's Republic of China Wu Xueqian, Urban said that this visit would actually be the first visit paid by Chinese minister of foreign affairs in the history of Polish-Chinese relations, if one excluded the visit to Poland, paid many years ago by Prime Minister Zhou Enlai who also held at the time the post of minister of foreign affairs.

"The visit confirms that relations between Poland and People's China, based on principles of friendship, full equality and mutual advantages, are developing most favorably. Wojciech Jaruzelski's last year's working visit to Beijing was a convincing expression of this," Urban said.

"Political dialogue has an important place in our mutual relations. It is facilitated by the convergence of views of both socialist states on a number of key problems of contemporary world, the striving of the Polish and Chinese people for the strengthening peace, detente, limitation of armaments and development of international cooperation.

"Talks with the foreign minister of China will provide an occasion to review and size up the hitherto results of Polish-Chinese cooperation and to outline the directions and goals for the future."

#### Harassment of Poles in Sweden

Asked about Polish Government stand on the harassment of Poles in Sweden, Urban said "We have no grievance. We have problems with Swedish tourists as well. But we are firmly opposed to collective responsibility. We have protested to the Swedish Government and have been assured that no harassment would take place."

#### Fighting in Lebanon

Asked to comment on recent developments in Lebanon over "Amal" attacks at Palestinian refugee camps, Urban said Poland was sympathetic to the Palestinian cause and was for peace in Lebanon. "We are calling for a halt to the fratricidal fighting and for a comprehensive settlement of the issues," he added.

#### International Indebtedness

Asked about government opinion on the indebtedness of the Third World, the spokesman said Poland favored settlement of the problem through agreement between the debtor and creditor nations which would reduce the usurer's interest rate, and joint projects aimed to facilitate exports from the debtor nations.

### Warning Talk to Onyszkiewicz

Asked about a warning talk to Janusz Onyszkiewicz before his meeting with the Spanish foreign minister, Urban said:

"In connection with preparations for a demonstration, which foundered, security officers invited Janusz Onyszkiewicz to a warning talk over the issue and his activity in general.

"It would have been ridiculous to expect security police to adjust the timing of such talks to Mr Onyszkiewicz's private appointments. Nowhere in the world law enforcement forces are that subtle, I believe," Urban said.

He said the talk was not intended to obstruct Onyszkiewicz from attending a reception at the Spanish Embassy and had nothing to do with the Polish-Spanish relations.

"The Western press' making into a political problem of the fact that Mr Onyszkiewicz had arrived late for Spanish snacks was at least ridiculous and showed that press in the West no longer had things to make fuss about," Urban told the journalists.

### Constitutional Tribunal Ruling

Asked whether the Health Ministry was planning to appeal against a constitutional tribunal verdict abolishing the ministerial men-to-women quota in admissions to medical universities, Urban said the ministry was awaiting a written pronouncement, but no appeal was expected.

Answering other questions, Urban did not rule out that the Polish Government might in the future change the preliminary conditions now set before joint ventures in Poland and he said Poland did not fear competition from the USSR where financial conditions for joint ventures were easier according to the journalist who asked the question.

In reply to another question, Urban said a draft prime ministerial decree was ready which would extend the "miner's chart of privileges onto stone miners."

Closing the conference, Urban noted in a statement that his information to his conference last 13 February, concerning the removal of Zdzislaw Najder as head of the Polish-language section of Radio Free Europe, had proven correct.

He said that in spite of efforts by the station's management to save its face and confirm the charges that he had been misinformed, Najder nevertheless was removed from the post on the grounds of differences concerning the character of the political orientation that had evolved in the Polish-language section of the Munich-based station.

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## URBAN CONFERENCE ADDRESSES INTERNATIONAL ISSUES

LD101417 Warsaw PAP in English 1320 GMT 10 Mar 87

[Text] Warsaw, 10 Mar--Asked during today's press conference, whether there were earlier consultations between Poland and the Soviet Union on the Soviet Union's 28 February initiative concerning Euromissiles, Minister Jerzy Urban stated that Poland was informed earlier about the intention of the forwarding of this proposal and its shape--and supported it.

In response to a question whether Poland would claim compensation for losses it suffered due to the restrictions imposed by the United States, Urban said: "As realists, we do not claim any compensation for the losses we suffered.

"We want normal relations with the United States and other Western partners, which would develop to serve the gradual removing of the effects of those sanctions," he said.

Asked to comment on Primate Glemp's statement that the establishment of diplomatic relations between Poland and the Vatican is close to being finalized, Minister Urban stated: "Poland strives to establish diplomatic relations with the Vatican and desires it."

He added that work is continuing on the draft law which is to give the church its legal status.

Asked how quickly the exchange of ambassadors between Poland and the United States can be expected Urban stated: "I hope that the successful course of Jozef Czyrek's visit in the United States will be marked as an important step forward in Polish-American relations. The visit should serve normalization, in which at a specified stage the exchange of ambassadors should take place. The practical elimination by the United States of the consequences of the restrictions and other unfriendly moves will favor the speeding up of this decision.

Asked to present his stand on the latest developments in Lebanon, connected with an attack on Palestinian refugee camps by the Amal organization, Minister Urban stated: "We are a country which sympathizes with the Palestinian cause and we want peace to prevail in Lebanon. We call for the end of the issue, the only thing which can eliminate the source of tension," Urban said.



## URBAN'S NEWS CONFERENCE REPORTED

LD172112 Warsaw PAP in English 1932 GMT 17 Mar 87

[Report by Leszek Kubiak and Mirosław Luniewski]

[Text] Warsaw, 17 Mar--The topics which dominated today's press conference held by Government Spokesman Minister Jerzy Urban included: the explosion near the "Warszawa" movie theater in Gdynia, subsidies for the "KIK" Catholic Intelligentsia Club, the issue of political prisoners, Bogdan Makowski's arrest, Jozef Czyrek's visit to the United States, Foreign Trade Minister Andrzej Wojcik's visit to Japan, the issue of terrorism, manifestations of a new information policy, no jamming of BBC broadcasts, housing rents, the fulfillment of economic tasks, state-church relations, combatting alcoholism, the campaign against AIDS, a commentary on the arrest of two Poles in Japan and mining card for rock miners.

At the outset of the conference Minister Urban supplied some information about matters which Western correspondents had asked before. He stated that three 19-year-old youths under the influence of alcohol caused an explosion in the vicinity of the "Warszawa" movie theater in Gdynia on 14 March. They were apprehended on the spot. The explosion did not cause any damage and the motives were strictly of a hooliganism kind. The youths were sentenced by a misdemeanor court to 1 month of prison each and are currently serving their terms.

Urban stated that he was unable to determine whether the current explosion in Gdynia was tied to the explosion in front of the PUWP Municipal Committee building in Gdynia. The question of whether anything ties these two events is being investigated in detail, stated the spokesman. Discussing matters touched upon at the recent press conference Urban stated that the issue of subsidies for the KIK Catholic Intelligentsia Club enabling it to operate would be positively resolved.

Next Urban referred to reports by the Western press repeatedly alleging the existence of political prisoners in Poland. He stressed that there were no such prisoners in Poland and added that people considered by western mass media as political prisoners were in fact perpetrators of serious criminal offences, such as homicide, sabotage, terrorism, and spying. Some of these people committed offences, at times crimes for

political motives. Motives of this type are falsely implied in the West. This concerns, for example, instances of corruption, stated Urban.

On this issue, I have made a statement clearly and with entire sharpness, Urban said. Also in the West, the committing of a murder, sabotage or acts of terror on political motives is no extenuating circumstance. We deem it strange and immoral when the West voices sympathy and asks to free perpetrators of the same crimes for which in the West people who commit them also on political motives are tried with entire severity, in greater numbers than in Poland, and imprisoned. This general and invariable stand of ours does not mean, however, that in individual cases competent authorities will not adopt humanitarian approach. This humanitarian approach is now likely towards perpetrators of setting fire to flats in the tri-city of Gdansk, Gdynia and Sopot.

Minister Urban added that Bogdan Makowski was arrested 14 March on charge of violating tax regulations. Objects and documents that can testify to his terrorist activity were also found in Makowski's flat upon his apprehension.

Czyrek in the U.S.

Answering a question about results of Jozef Czyrek's visit to the United States, Urban said that the visit was another step to normalize Polish-U.S. relations and the Polish Government considers it to have well served the goal. Polish assessments of the possibilities to develop Polish-U.S. cooperation, presented by Czyrek, were given an attentive hearing and we think that they found favorable conditions. Jozef Czyrek extended to Senator Edward Kennedy the Sejm official invitation to visit Poland. The senator accepted the invitation and is to propose a date of the visit.

Wojcik in Japan

Asked about the results of the visit paid by Minister of Foreign Trade Andrzej Wojcik to Japan, Urban said that it confirmed Poland's and Japan's interest in more vigorous bilateral economic relations as well as the countries' will to elevate these relations to the higher level with regard to both their quality and quantity. The talks focused on the issues pertaining to the normalization of financial relations and concrete investment projects. The possible cooperation with Daihatsu was also discussed with both sides getting more precise about their stances.

Problem of Terrorism

Asked whether the definition of terrorism in the West and in Poland did not differ, Urban said: "No. As terrorism we understand the same thing as in the West. We are for codification of these notions and for international cooperation in this field. Obviously there are different acts of terrorism. I have an impression that some representatives of the West

are eager to belittle acts of terrorism when they take place in Poland and be strict in their evaluation when such incidents happen in their homeland, that they sympathize with terrorists if the latter's political motivations are anti-socialist."

#### Manifestations of a New Information Policy

Asked whether the publication of an article in POLITIKA about the assassination attempts on Bierut and Gomulka in the 50's and 60's and information carried by other Polish periodicals shedding new light on the case of Nowotko's death could be treated as a manifestation of a new information policy, Minister Urban acknowledged that he would willingly agree to such an interpretation but that honesty did not allow him to. Urban also added that the Polish press has been writing about the case of Nowotko's death for a long time. Our policies consistently aim at creating a situation in which there would be no information white spots, he stated.

#### No Jamming of BBC

Asked whether he reconfirmed his statement made in London about possible jamming of BBC broadcasts by Poland, Minister Urban replied in the positive-- Poland does not jam BBC broadcasts, he stated.

#### Housing Rents

Asked whether the government intended to forward a legislative initiative on the so-called housing rent case in which the constitutional tribunal saw a discordance with the constitution of the decision of the Council of Ministers on rising rents, Minister Urban stated that the government acted passively on this matter, which meant that the questioned regulation ceased to be binding. The government will propose a relevant amendment on this matter, stated the spokesman.

#### Fulfillment of Economic Tasks

Asked whether a low level of exports and a high level of imports and wage rises would endanger the fulfillment of the economic plan for this year, Minister Urban stated that economic results in January were indeed not too good. They were improved in February. They were positive enough to allow one to assume that the losses will be made up for, he stated.

#### State-Church Relations

Asked whether it was true that the authorities will recognize the legal status of the church if the church will recognize the leading role of the party, Jerzy Urban stated that the question was a superficial one. He stated that he did not know whether the church questioned the leading role of the party which is determined by the constitution. He added that work was under way to define the legal status of the church.

### Combatting Alcoholism

Asked whether Poland would follow the example of the Soviet Union in solving the issue of alcoholism, Minister Urban stated "we are trying to combat excessive drunkenness but I do not think that the Soviet measures used in this respect would be effective in Poland. Polish society is not as disciplined as Soviet society. If the Soviet measures suit us we will use them." Soviet steps concerning this issue are closely followed in Poland, he added.

### Campaign Against AIDS

Asked whether Poland would follow GDR's example and continue information campaign on AIDS, Urban answered in the affirmative and added that it is meant to be a propaganda action on a wide scale.

### Commentary on the Arrest of Two Poles in Japan

Speaking of the arrest of two Poles in Japan, Urban said that Japanese authorities had not notified the Polish Embassy in Tokyo about any charges against Polish nationals who had their visas cancelled. "I guess that the incident concerns Poles who violated their tourist visas and worked in Japan," Urban said.

"Theories of spying aired by the Western press are presumably sensational fantasies. Spies are followed carefully and for a long time, spies are urged to collaborate, spies are arrested and put on trial, and sometimes they are later swapped, but never are they expelled," he said.

### Miners' Charter for Rock Miners

Asked about the problem of the miners' charter for rock miners, Urban presented the course of events related to giving privileges from the miners' charter to rock miners. He said that on 27 February the government obligated the minister of labor, wages and social welfare to draft a prime minister's regulation on giving rock miners the privileges from the miners' charter.

A session of the Council of the Federation of Factory Union Organizations of Opencast Miners was held 13 March. The debaters decided to start a protest action 16 March consisting in hoisting flags and banners with an inscription "a protest action." The federation says it will start a strike 26 March that would violate the section of regulations of the trade union law on collective disputes. On 16 March, the trade unions forwarded the last two opinions on the draft regulation. Intensive work is under way to examine proposals and opinions on the draft of the prime minister's regulation forwarded during consultations. Thus, pressure is exerted in this case, Urban said.

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## DEFENSE MINISTER INAUGURATES SWIERCZEWSKI MUSEUM

LD290412 Warsaw PAP in English 2106 GMT 28 Mar 87

[Text] Warsaw, 28 Mar--A large patriotic rally in Jablonki near Baligrod, south-eastern horn of Poland, and opening of a museum devoted to the memory of General Karol Swierczewski "Walter" marked the 40th anniversary of the death of this outstanding worker movement activist, soldier of the October Revolution, veteran of battles against fascism in Spain and on the frontlines of World War II, the legendary hero of many nations, co-founder and commander of the Polish People's Army.

Minister of national defence, Army General Florian Siwicki delivered a speech to mark the occasion, in which he said in part:

With our presence here today we are paying the due homage to the man who sacrificed to his people's motherland, the Polish nation, what most valuable he had, who made the greatest sacrifice. But this was not in vain. Today's Poland is the most eloquent confirmation to this. We continue to live in a complicated world, full of divisions, contradictions and tensions.

What still arouses justified fears is the continuous expansion of the NATO military potential, including its main European force, the West German Bundeswehr, the construction of newer, more destructive systems of arms, steadfast materialization of the highly dangerous U.S. plans of the so-called Star Wars.

Numerous peace initiatives of the Warsaw Treaty states, especially the Soviet proposals to limit and reduce armaments, serve the liquidation of those processes which are dangerous to peace. They meet the expectations of the whole mankind and are especially valuable to us, Poles, who were so tragically traumatized by the war. We support them with the entire force of our will, decisively and consistently, Siwicki continued.

Poland's historical experience obligates us--alongside active participation in peaceful moves--to vigilantly watch the disturbing course of events, spare no effort to guarantee security to the country, basing on its own and the allied defensive force this is necessary all the more so as there are many volunteers to revise the outcome of World War II. That fuehrers



of various landsmannschaften still exist and campaign in the Federal Republic, spreading anti-Polish slogans, dreaming of a return to our ages old fatherland, the ancient lands of the piasts (dynasty).

General Siwicki stressed the frequently-confirmed willingness of Poland to co-exist peacefully with all nations on the principles of mutual respect.

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## BRIEFS

**POREBSKI, AUSTRIAN POLITICIANS** --Vienna, 26 Mar--Political Bureau member, PUWP CC secretary, Chairman of PUWP Parliamentary Group Tadeusz Porebski, in Vienna for the Congress of Austrian Communists starting tomorrow, held talks today with representatives of the Austrian Parliament. He was received by Chairman of the Lower Chamber Leopold Gratz and met with chairman of the Socialist Party of Austria Floor Group Heinz Fischer and held talks with head of Parliamentarian Committee for Foreign Affairs, Socialist Peter Jankowitsch. The talks centered on problems linked with relations between the two states, giving special attention to inter-parliamentary contacts. Both sides showed strong will to further animate them. [Text] [Warsaw PAP in English 2235 GMT 26 Mar 87] /9604

**ECONOMIC REFORM COMMISSION ADDRESSED**--Warsaw, 25 Mar--The Commission for Economic Reform is now holding a meeting at the office of the Council of Ministers here. The meeting, chaired by Prime Minister Zbigniew Messner, is attended by Wojciech Jaruzelski, first secretary of the PUWP Central Committee, who for 5 years has directed the work of the commission. Today's debates of the commission are ranging over solutions of the second stage of the economic reform. The meeting is also attended by Sejm (Parliament) deputies, representatives of employees' self-management and trade unions. Wojciech Jaruzelski was the first to take the floor at the meeting. [Text] [Warsaw PAP in English 1135 GMT 25 Mar 87] /9604

**UPCOMING PRON CONGRESS VIEWED**--Warsaw, 25 Mar--The socio-economic initiatives committee of the Patriotic Movement for National Rebirth (PRON) met today for the last time before PRON's second congress and decided to file most of its opinions issued over the past 5 years with the congress programmatic materials. Chairman of the committee Wincenty Lewandowski told PAP the movement wanted to see important formulations written into the congress stance on issues pertaining to the development of state and society. One of these will be that for quite a time Poland's economic growth has not been effective enough and has cost too much. The economic reform should be comprehensive and radical. Lewandowski noted that PRON's experts postulated restructured production in Poland and called for parallel transformation of central economic bodies. PRON has also been critical of the policy of low prices kept down artificially to protect those worst-off, as a costly and socially as well as economically ineffective measure

that serves the rich just as well since the same low prices are for everyone. The movement has called for specifically addressed welfare benefits. [Text] [Warsaw PAP in English 2330 GMT 25 Mar 87] /9604

NETHERLANDS DELEGATION RECEIVED--Warsaw, 26 Mar--Poland's vice-president of the Council of State Kazimierz Barcikowski received here today a delegation of Dutch parliamentarians headed by Joep de Bor who is president of the Foreign Commission at the Dutch Parliament. The delegation represents Holland's Christian-Democratic Party and has been visiting Poland since yesterday at the invitation from the Christian Social Association (CHSS). The meeting was attended by CHSS Chairman and member of the Council of State Kazimierz Morawski. Also today, at a meeting with CHSS officials, the Dutch guests were discussing social and international activity of Christians in Poland and Holland and development of Poland's internal situation characterized by overcoming the economic and social crises on the basis of democratization of life and economic restructuring. The sides also touched upon the international situation, stressing that it requires concerted efforts of states with different political systems and social forces representing different ideologies and world outlooks in building the foundations for lasting peace, security and confidence in Europe. [Text] [Warsaw PAP in English 1953 GMT 26 Mar 87] /9604

FRENCH PARLIAMENTARIANS RECEIVED--Warsaw, 23 Mar--Foreign Minister Marian Orzechowski met here today with the delegation of the French-Polish group of friendship in the National Assembly, headed by Francis Geng, now on an official visit to this country. The sides discussed some aspects of Polish-French relations and expressed interest in their further development for the good of the two countries and all-European peaceful cooperation. Present was French Ambassador to Poland Claude Harel. While at the Foreign Trade Ministry, the French parliamentarians talked with Vice-Minister Kazimierz Klek about problems of Polish-French economic cooperation. During a meeting in the Sejm, the guests got acquainted with the activity of the constitutional tribunal. The French delegation is expected to end its visit tomorrow. [Text] [Warsaw PAP in English 1914 GMT 23 Mar 87] /9604

WARSAW OFFICIALS VISIT MOSCOW--Moscow, 12 Mar--A delegation of the municipal authorities of Warsaw headed by the capital's President Jerzy Boleslawski paid an official visit to Moscow on 9-12 March. At the executive committee of the Moscow Soviet of People's Delegates the Polish guests met with its chairman Valeriy Saykin and the municipal authorities. As was stressed the Moscow authorities are interested in cooperation with their Polish colleagues, among other things, in the field of developing commerce, the production of consumer goods and the like. The delegation from Warsaw paid a visit to the CPSU municipal committee in Moscow. As a result of the held talks the sides agreed on the matter of cooperation and trade exchange between the department stores of both capitals. [Text] [Warsaw PAP in English 2230 GMT 12 Mar 87] /9604

CANADIAN PARLIAMENTARIANS VISIT--Warsaw, 14 Mar--A delegation of the Canadian parliament, headed by Deputy Speaker of the House of Commons Steven E. Paproski and comprising three deputies from different parties, arrived in Poland today at the invitation of the Sejm (parliament) Presidium. Poland appreciates the understanding which Canada has shown for Poland's stance in her difficult period. The sides think that at present premises exist for bilateral relations to enter another stage of development. The delegation met with Sejm Speaker Roman Malinowski here tonight to talk of the possibilities to enliven Polish-Canadian contacts, including economic and scientific-cultural ones as well as the matter of participating in active dialogue contributing to the strengthening of peace. The visit by the Canadian parliament delegation is scheduled to last till Thursday. Besides meetings and talks in Warsaw the guests will also visit some regions of Poland. [Text] [Warsaw PAP in English 1950 GMT 14 Mar 87] /9604

POLISH-ITALIAN FRIENDSHIP SOCIETY--Warsaw, 17 Mar--The Polish-Italian Friendship Society's main board met in Warsaw today to discuss the society's tasks in augmenting cultural cooperation between Poland and Italy. Aleksander Krawczuk, Polish minister of culture and art, was elected president of the society's main board. [Text] [Warsaw PAP in English 1454 GMT 18 Mar 87] /9604

PANAMA COOPERATION AGREEMENT--Havana, 19 Mar--Poland and Panama yesterday signed an agreement on cooperation in science, culture and education between their two countries in the years 1987-1989. The document envisages activation of exchange of specialists in technology and scientists, the organizing of exhibitions and shows, and establishing contacts between mass media of the two countries. [Text] [Warsaw PAP in English 2144 GMT 19 Mar 87] /9604

PRC'S WU MEETS REPORTERS--Warsaw, 13 Mar (XINHUA)--Chinese Foreign Minister Wu Xueqian today expressed the hope that the two superpowers would reach agreement on Euromissiles through negotiation without harming the interests of other nations. Speaking to reporters at the end of his visit to Poland, Wu said China welcomes an agreement between the Soviet Union and the United States on medium-range missiles in Europe. Medium-range missiles in the Pacific and Asian areas should be reduced as well before their final elimination, he pointed out. China supports a proposal to establish a nuclear-free zone in the South Pacific region and signed two agreements on it recently. Asked about the international issues in which China and Poland can cooperate, Wu said the two countries have identical views on how to achieve drastic arms reduction, how to increase aid to developing countries and how to improve South-North relations. Wu also praised the development of relations between China and Poland, saying the two countries would strengthen their friendly relations in all fields. Wu also expressed satisfaction with the implementation of a long-term agreement on trade signed last year between China and Eastern European socialist countries. [Text] [Beijing XINHUA in English 1724 GMT 13 Mar 87] /9604



PRC'S WU LEAVES FOR BULGARIA--Warsaw, 13 Mar (XINHUA)--Chinese State Councillor and Foreign Minister Wu Xueqian today described his 4-day visit to Poland as very successful. Before leaving here for Bulgaria, Wu told reporters that his visit achieved very good results, saying, "I am optimistic about the prospect of the development of Sino-Polish relations and I believe that the visit would help promote the development." Wu said his visit is a preparation for an upcoming visit to Poland by Chinese Premier Zhao Ziyang. During his visit, Wu was received by Polish leader Wojciech Jaruzelski and other senior Polish officials, held talks with his Polish counterpart Marian Orzechowski and toured the city of Krakow and the Rzeszow voivodship. Wu and his delegation left here today for Bulgaria, the third stop of his tour of seven European countries. [Text] [Beijing XINHUA in English 1400 GMT 13 Mar 87] /9604

REPRESENTATIVE AT CSCE SESSION--Vienna, 12 Mar--Addressing the environmental group of the CSCE review meeting Vienna-86 Poland's representative Aleksander Czepurko presented the Polish stand on a proposal forwarded by Hungary and Bulgaria regarding the exchange of technologies and technological information in the field of environmental protection. He said the proposal, aimed to create a system of international cooperation in the field of the so-called clean technologies (that is, producing contamination that is invisible and unmeasurable but still harmful to the environment and the population) should be considered in commercial and moral terms alike. Establishing regional mechanisms which would secure unlimited access to the latest technological accomplishments safeguarding environmental protection, for instance within the framework of the Economic Commission for Europe, would serve well the common interest and the materialization of ideas and principles guiding the CSCE states, Czepurko said. [Text] [Warsaw PAP in English 2208 GMT 12 Mar 87] /9604

ZIMBABWE COOPERATION AGREEMENT SIGNED--The visiting Polish United Workers Party delegation signed an agreement of cooperation with the ruling party, ZANU-PF, in Harare today. The agreement, which covers cooperation in the fields of production, education, and information exchange, was signed by the ZANU-PF external affairs secretary, Comrade Didymus Mutasa, and by Comrade Stanislaw Bejger for the Polish party. Speaking at the signing ceremony, Comrade Mutasa said Zimbabwe will benefit from the agreement if the people make use of it. Under the agreement Zimbabwe will also be able to send students to Poland. [Text] [Harare Domestic Service in English 1115 GMT 13 Mar 87] /9604

PZPR'S BEJGER IN ZAMBIA--Lusaka, 11 Mar--The PUWP delegation headed by Political Bureau Alternate Member Stanislaw Bejger, now visiting Zambia at the invitation from the United National Independence Party (UNIP), have held talks with the UNIP leadership and signed a protocol on inter-party cooperation. In the talks, the sides briefed each other on the internal situation in their countries and discussed key international problems. [Text] [Warsaw PAP in English 1236 GMT 11 Mar 87] /9604



**AID TO ZIMBABWE PROMISED**--The leader of the Polish delegation which has been visiting Zimbabwe says Poland is ready to increase its support to the Frontline States which are victims of racist South African aggression. Comrade Stanislaw Bejger told ZIANA before departure today that his delegation's 5-day visit to Zimbabwe was fruitful, adding that it gave the delegation an insight into the situation in southern Africa and Zimbabwe in particular. While in Zimbabwe Comrade Bejger signed an agreement on behalf of the Polish United Workers Party with the ruling party, ZANU-PF, giving the framework for cooperation between the two parties and governments. [Text] [Harare Domestic Service in English 1600 GMT 15 Mar 87] /9604

**JARUZELSKI MEETS YOUTH LEADER**--Warsaw, 13 Mar--Today, PUWP CC First Secretary Wojciech Jaruzelski received head of the National Board of the Rural Youth Union Leszek Lesniak who told Jaruzelski about problems of rural youth and initiatives of the organization. The PUWP CC first secretary conveyed cordial congratulations and best wishes to the organization in connection with the "Meeting of Generations" to mark the 30th anniversary of setting up the Rural Youth Union. The "Meeting of Generations" of former and present activists of the Rural Youth Union was held here today. Present was member of the PUWP CC Political Bureau and vice-president of the Council of State, and also former head of the Main Board of the Rural Youth Union, Kazimierz Barcikowski. [Text] [Warsaw PAP in English 2253 GMT 13 Mar 87] /9604

**LOCAL SOCIO-ECONOMIC COUNCILS**--Warsaw, 10 Mar--Following a resolution of the Council of State of 1st November, voivodship people's councils started to form socio-economic councils. Till the end of February last, decisions concerning the establishing of these organs were taken in six voivodships accompanied by the election of the council members. In general, they represent workers' self-management councils of state enterprises, trade unions, socio-vocational organizations of farmers, cooperatives' members and craftsmen, youth unions and other social organizations. According to the chancellery of the Council of State, other 42 socio-economic councils are expected to be formed this month, and the second decade of April will see the completion of the process. The councils in question will constitute a plan for cooperation and exchange of views between people's councils and workers' self-management councils, cooperative sector and social organizations, and they will also be a forum for undertaking various regional initiatives. [Text] [Warsaw PAP in English 1040 GMT 10 Mar 87] /9604

**CIVIC MILITIA ROLE UPGRADED**--Warsaw, 19 Mar--During the period of 20 years in which the law was in force a need became evident to perfect the legal foundations of the activities of the ORMO [Volunteer Reserve of Civic Militia] Auxiliary Militia which should become a modern social organization creating the frames and appropriate climate for the optimal use of social forces in the protection of public order, SEJM Deputy Franciszek Socha said. An ORMO unit was and remains the key executive link of ORMO. The draft envisages a calling into being of the following ORMO organizations: rural, municipal-rural, municipal, district and voivodship. The draft envisages calling into life of the following social, collegial authorities of the

ORMO organization: the national social committee of ORMO and its relevant local branches. Supervision over ORMO will also be exercised by the minister of internal affairs as a body responsible for state security and public order protection in Poland. In order to upgrade the effectiveness of the activities of ORMO functionaries they will be equipped with a means of direct coercion in the form of individual tear gas spraying containers. [Text] [Warsaw PAP in English 1619 GMT 19 Mar 87] /9604

MIODOWICZ AT AGRICULTURE TU CONGRESS--Warsaw, 19 Mar--The 2nd National Congress of the Federation of Trade Unions of Agricultural Workers of Poland opened its 2-day debates here today. Three-hundred delegates to the congress representing half a million unionists from the socialized sector of agriculture, will evaluate the hitherto activity of the federation, lay down directions of work for the next few years and elect the federation's new authorities. Taking part in the congress are delegations of similar labor organizations from Austria, France, the GDR, the USSR, as well as a delegation of the Trade Unions International of Agricultural, Forestry and Plantation workers. Present during today's debate was the OPZZ chairman Alfred Miodowicz. [Text] [Warsaw PAP in English 2122 GMT 19 Mar 87] /9604

CONSULTATIVE COUNCIL MEETING--Warsaw, 27 Feb--The Consultative Council to the President of the Council of State has gathered for its first working meeting at the Belvedere Palace today to discuss matters of Poland's development on the basis of the materials provided by the "Poland-2000" Committee. Before the opening of the meeting, President of the Council of State Wojciech Jaruzelski, with the council's members present, presented director of the Royal Castle in Warsaw Prof Aleksander Gieysztor with the gift he had received from Pope John Paul II during a recent visit to the Vatican. Jaruzelski received then two magnificent volumes of photo reproductions by Takashi Okamura, of Japan, of Michelangelo's frescoes painted in the Sistine Chapel and published in Japan in a small impression. "I have come to the conclusion that the most worthy place to put this excellent gift is the Royal Castle where millions of Polish people can see it." Gieysztor recalled that the castle already preserved two other gifts from the Polish-born pope: an exquisite mosaic and an antique, 16th century painting. [Text] [Warsaw PAP in English 1206 GMT 27 Feb 87] /9604

PZPR POLITBURO SESSION--Warsaw, 17 Mar--In tune with directions of the third PUWP CC Plenary session, the PUWP CC Political Bureau made its regular monthly assessment of the implementation of the plenum's resolution and reviewed the state of work to implement the second stage of the economic reform at its away session in Bydgoszcz today. The debaters discussed preparations for the 4th PUWP CC Plenum to be devoted to analyzing problems of consolidating basic party cells, increasing their role in the party life and effectiveness in social and professional milieux. The PUWP CC Political Bureau reviewed these problems, considering opinions, proposals and motions that working crews of factories in the Bydgoszcz Voivodship submitted to representatives of the party leadership during numerous talks, also with non-party people, and at debates of basic party cells. [Text] [Warsaw PAP in English 2034 GMT 17 Mar 87] /9604

'EXUBERANT OPULENCE' CRITICIZED--Warsaw, 13 Mar--Socio-political and economic situation of the country and region, conditions of further all-round development, and international relations were discussed today at a meeting of PUWP CC Political Bureau member, Defence Minister Gen Florian Siwicki with workers of the Chodziez China Maker. The meeting exchanged views on the work of the Sejm (Parliament) and its link with the working people and critically assessed exuberant opulence of part of Polish society living off people of honest work, as well as a number of economic phenomena that give rise to concern on the part of the working class. [Text] [Warsaw PAP in English 2200 GMT 13 Mar 87] /9604

NORWEGIAN POLITICAL TALKS--Oslo, 17 Mar--Polish-Norwegian political consultations have been held here by Poland's Undersecretary of State at the Foreign Ministry Tadeusz Olechowski and Foreign Vice-Minister of Norway Kari Gjesteby. Olechowski was received by Norwegian Foreign Minister Thorvald Stoltenberg to whom he conveyed an invitation from Poland's Foreign Minister Marian Orzechowski to pay an official visit to Poland. The invitation was accepted with satisfaction. Olechowski also held talks with Minister of Commerce and Shipping Kurt Mosbakk and representatives of the International Affairs Committee at the Storting. The sides reviewed Polish-Norwegian bilateral relations and the prospects for their further development. Exchanged were views on the key issues of the current international situation with particular regards to disarmament, security and cooperation in Europe. Hope was cherished that the CSCE Vienna meeting would help reach positive result and would contribute in a constructive way towards general improvement of East-West relations. [Text] [Warsaw PAP in English 1942 GMT 17 Mar 87] /9604

MILITARY COMPUTER SCIENCE REVIEWED--Warsaw, 17 Mar--The use of computer science in the Polish Armed Forces was reviewed during a session of the Sejm National Defence Committee held today in the headquarters of the Warsaw military region. The committee said that computer science is practically used in the Polish Armed Forces on a broad scale. Allied cooperation of the armies of the Warsaw Treaty states is an important factor of the successful automation and development of computer science in the Polish Army, it added. The debaters stressed that the lines of further development of automation and computer science in the National Defence Ministry were properly defined. [Text] [Warsaw PAP in English 1948 GMT 17 Mar 87] /9604

DELEGATION MEETS MEXICAN GROUPS--Mexico City, 29 Mar--A delegation of the PUWP CC, headed by Zbigniew Michalek, alternate Political Bureau member and PUWP CC secretary, attending the Third Congress of United Socialist Party of Mexico (PSUM) conducted several meetings in the country's capital. The delegation met with the PSUM leadership. In the name of the highest Polish authorities, Michalek invited a delegation of the PSUM leadership to pay a visit to Poland. The visit is expected to serve the further tightening of inter-party cooperation, which was also one of the topics discussed during the meetings. The Polish delegates also met with Humberto Lugo Gil, the secretary general of the Institutional-Revolutionary Party (PRI) and presented a formal proposal of cooperation between the PUWP and the PRI. Michalek invited Lugo Gil to pay a visit to Poland. The PUWP delegation also met with the leadership of the National Peasants Confederation (CNC) and its Secretary General Hector Hugo Bolivares Ventura. [Text] [Warsaw PAP in English 1354 GMT 29 Mar 87] /9604



## POSTWAR CONDITIONS COMPARED UNFAVORABLY WITH PREWAR

Belgrade DUGA in Serbo-Croatian 21 Feb 87 p 4

[Commentary by Dragan R. Markovic: "A Word or Two...About Locomotives"]

[Text] For decades, prewar Yugoslavia has been a synonym for backwardness, misery, and misfortune, serving only to make postwar Yugoslavia appear more brilliant. By no means rarely, prewar Yugoslavia has been an object for mockery. The peak was reached when a ranking governmental official [Josip Vrhovec] stated, not so long ago, that prewar Yugoslavia did not even deserve to be defended in 1941.

Accordingly, prewar Yugoslavia was a land of plague and darkness, while postwar Yugoslavia is a land of light and guaranteed progress. On the other hand, new voices are being heard--not on behalf of prewar Yugoslavia, which would amount to necrophilia, but rather against the existing Manichaeism, i.e., looking at things in black-and-white terms. At a talk on scientific and technical development at the LCY CC Presidium, Muris Osmanagic said, "The older workers remember that they could buy a cow with a blue-collar worker's monthly pay in prewar Yugoslavia, against which they went on strike. Today, they can buy a goat. This is an untenable situation in terms of both worker motivation and scientific and technical progress." Next, a retired newspaperman recently stated that prewar Belgrade had more moviehouses than today; a literary theoretician has been proving that even spiritual freedoms were greater in prewar Yugoslavia than today; an economist asserts that the situation is now worse than in the 1930's, because we continue to be at the bottom in Europe, slightly ahead of Albania, in all indicators of development, with the gap widening; and so forth.

How are we to understand all this in the light of the axiom that revolutions are the locomotives of history? Surely this is not a narrow-gauge steam locomotive?

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